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FARM CREDIT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON CONSERVATION AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH CONGRESS

SECOND SESSION

ON

H. R. 10285, H. R. 10286, H. R. 10315,
and H. R. 10392

APRIL 19, 20, AND 21, 1956

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FARM CREDIT

THURSDAY, APRIL 19, 1956

HOUSE OF REPRESENTATIVES,
SPECIAL ACTION SUBCOMMITTEE ON
CONSERVATION AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1310, New House Office Building, Hon. W. R. Poage (chairman of the subcommittee) presiding.

Present: Representatives Poage (presiding), Hill, and McIntire.

Also present: Representatives Gathings, Thompson, Jones, Hagen, Johnson, Jennings, Matthews, Hope, Dague, Harvey, and Dixon.

Representative Christopher.

Mr. POAGE. The subcommittee will please come to order.

The subcommittee has met this morning to consider amendments to farm credit legislation. There are several bills introduced; one by the chairman of the committee, H. R. 10285.

I believe identical bills have been introduced also. Some of the members of the subcommittee have bills and the chairman of the committee has one, too; and they are all about the same thing and we might as well consider them together.

(H. R. 10285, H. R. 10315, H. R. 10286, H. R. 10392, and H. R. 10923 are as follows:)

[H. R. 10285. 84th Cong., 2d sess.]

A BILL To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956".

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

“CAPITAL STOCK

“SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

“(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to

purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at a face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) **LIEN ON STOCK AND PARTICIPATION CERTIFICATES.**—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) **ANNUAL APPLICATION.**—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings

after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

“(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

“(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.”

SEC. 104 (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: “The directors shall have power, subject to the approval of the Farm Credit Adminis-

tration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"Sec. 202 (a) The Federal intermediate credit banks, when chartered and established shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended."

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corpora-

tions and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank".

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of the next to the last sentence to a colon and adding the following: "Provided, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof, the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption pro-

vided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsection (b) and (c) the words "and corporation", "and corporations", and "corporation," wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203 (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby reserved.

[H. R. 10286, 84th Cong., 2d sess.]

A BILL To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956".

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANK:—(a) TRANSFER OF ASSETS. The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization

and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

“CAPITAL STOCK

“SEC. 205 (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and Class B stock as follows:

“(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

“(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in

an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) ANNUAL APPLICATION.—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues

of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: First, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

“(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

“(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.”

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: “The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks.”

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

“SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

“(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"Sec. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

Sec. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"Sec. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"Sec. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such

association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank".

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "Provided, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation", wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

[H. R. 10315, 84th Cong., 2d sess.]

A BILL To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956."

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and the development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICER AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all

necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102, Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

"CAPITAL STOCK

"SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

"(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year

after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) ANNUAL APPLICATION.—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, in reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall

be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: First, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

"(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202. (a) the Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association: and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose: and

"(3) to make loans and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized

under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank".

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the

farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "Provided, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

Sec. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

Sec. 107. (a) Section 8 of the Farm Credit Act of 1933 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1933 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known

as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation", wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations;"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

[H. R. 10392, 84th Cong., 2d sess.]

A BILL To merge production credit corporations in Federal intermediate credit banks ; to provide for retirement of Government capital in Federal intermediate credit banks ; to provide for supervision of production credit associations ; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956".

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit ; to promote the efficiency of the Farm Credit System by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein ; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system ; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS

SEC. 101. (a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provisions of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows :

"CAPITAL STOCK

"SEC. 205. (a) CLASSES OF STOCK ; OWNERSHIP ; DIVIDENDS ; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows :

"(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be re-allocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1936) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1936, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1936 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations.

After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institutions at the fair book value hereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206 (a) ANNUAL APPLICATION. At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: First, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

"(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal

intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Admin-

istration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking the words "production credit corporations", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank."

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district, with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "Provided, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(l) Section 61 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(m) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking the words "production credit corporations,".

(n) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporation,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association of its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(o) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking the words "production credit corporation,"; and (2) by striking the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(p) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporation," wherever they appear therein, and the word

"corporations."; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation.", wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes, as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of this Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

MR. POAGE. And, of course, we will consider along with that, any modifications that anybody wants to present. I understand that one of our colleagues has introduced a bill that has the support of the Bureau of the Budget and copies have not come over yet, and another Member has introduced a bill that establishes some kind of local mutual aid society, to replace the present Farm Credit Association.

Probably, you will want to discuss those measures as we go along.

I think probably it would be well to start out this morning and get a general idea of this legislation by calling on Mr. Briggs.

STATEMENT OF MARVIN J. BRIGGS, CHAIRMAN, FEDERAL FARM CREDIT BOARD

MR. BRIGGS. Chairman Poage and members of the committee, my name is Briggs, Chairman of the Federal Farm Credit Board. Associated with me on the Board and present today are two of the Directors, both nominees of Production Credit: Mr. Munger from District

1, Springfield; Mr. Matthews from District 10, Houston—I believe that is Texas, Chairman Poage. The other members of the staff will be introduced later.

I think, Mr. Chairman, that we can shorten my statement if I just read it, because it is brief.

MR. POAGE. That will be fine. You may proceed.

MR. BRIGGS. It is a pleasure to appear before this committee and discuss the activities of the Federal Farm Credit Board in connection with the development of H. R. 10285, a bill which would merge the production credit corporations in the Federal intermediate credit banks and provide the legislative means for farmer ownership of these banks.

All other farm credit institutions supervised by the farm credit institutions supervised by the Farm Credit Administration are now either wholly farmer-owned or else existing law provides a program to accomplish that objective.

I shall not attempt to explain the provisions of the bill itself. This will be done by Governor Tootell, who will testify later. My testimony will be limited to a discussion of the events which led to the development of the legislative recommendations contained in the bill.

The Federal Farm Credit Board was established pursuant to the Farm Credit Act of 1953. The Board was given specific statutory responsibility for recommending legislation to the Congress which would carry out the declared policy of that act with respect to the management, control, and ownership of the Federal farm credit system. Section 2 of that act reads as follows:

It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this Act shall be construed in keeping with this policy.

The Federal Farm Credit Board hereinafter provided for shall within one year after appointment make recommendations to the Congress of means, supplemental to those provided by this Act, of carrying into effect such declared policy, including, but not limited to, means of increasing borrower participation in ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, production credit corporations, Central Bank for Cooperatives, and regional banks for cooperatives may be retired.

Since it took office in December 1953, the Federal Board has had 10 regular and 8 special meetings. The major portion of the Board's work to date has been concerned with the development of legislative recommendations to carry out its responsibility under the provisions of the 1953 act.

As required by section 2 of that act, quoted above, the Board on December 8, 1954, transmitted to the Congress a special report setting forth its recommendations for legislation to accomplish the objectives of that act. This report was published as Senate Document No. 7 of the 84th Congress.

For the reasons set out in the report, the Board made no recommendations for the retirement of the Government capital in the Federal intermediate credit banks. Instead, it recommended that the Congress delay consideration of such legislation until the Board had made a further study of the problem.

A draft bill incorporating most of the recommendations contained in the special report of December 8, 1954, was submitted to the Congress in February 1955, and was introduced in the House as H. R. 5168 and in the Senate as S. 1286.

During the hearings on the bill, the representatives of a number of production credit associations appeared in opposition to certain provisions relating to the production credit corporations.

These witnesses assigned different reasons for their opposition but the majority of them agreed that the matter should have further study.

Before enacting H. R. 5168 as the Farm Credit Act of 1955, the Congress deleted from the bill provisions which would have required the retirement of the Government capital in the production credit corporations and the gradual assumption by the production credit associations of the cost of their supervision. The Farm Credit Administration was asked by the committee to give this entire problem further study and to make new recommendations on the subject at this session of the Congress.

In the hearings on the farm credit bill last year it was indicated by some production credit associations that the provisions of that bill relating to the production credit corporations had not been developed in close enough cooperation with the production credit associations who were expected to pay off the Government capital in the corporations.

As soon as it became apparent that a further study of this problem was necessary, the Board felt that further legislative recommendations in this regard should be developed at the grassroots.

Therefore, the Federal Board arranged to hold an informal hearing in each of the 12 farm credit districts for the purpose of obtaining the views and suggestions of the production credit associations and the other users of the credit banks.

It was the desire of the Board to give the interested parties an opportunity to participate fully in the development of new legislative recommendations. In so doing, the Board followed much the same procedure which this committee has followed from time to time in the development of important farm legislation. These 12 district meetings were held last summer during the latter part of July and the month of August.

The 498 production credit associations and the 90 other financing institutions—usually referred to as OFI's—using the facilities of the intermediate credit banks were notified of these meetings and urged to participate in them.

Here is something very important: At these 12 meetings, 486 of the production credit associations—that is 97 percent—and 63 of the OFI's were represented. That would be 70 percent. I would say in passing that the production credit associations in most cases were represented by about all of their directors. That is the local PCA's were present.

Although the full membership of the Federal Board attended only 1 of the meetings, each of the other meetings was attended by at least 3 members, including 2 of the 4 appointed from nominees of production credit associations.

In addition, the following were present: district farm credit board members, the district representative of the National Advisory Committee of Production Credit Associations, the President of the Federal

intermediate credit bank, the President of the production credit corporation, and three members of the Washington staff of the Farm Credit Administration.

In order to stimulate full and free discussion, the following procedure was followed at each meeting. One member of the Federal Board conducted all 12 of the meetings and discussed a number of questions which had been asked from time to time in regard to legislation affecting the production credit corporations and the Federal intermediate credit banks.

The Governor of the Farm Credit Administration discussed some important considerations involved in any legislation concerning these institutions. There were then presented to the group various alternative plans which had been suggested to the Federal Board as means for retiring the Government capital in the credit banks and the corporations.

This was followed by a discussion and a question and answer period. That is by the PCA and all users of the system. Emphasis was placed on the fact that the Board was not trying to sell any particular program but rather wanted to find out the thinking of the people who use the system.

The second day of each meeting was devoted to testimony by the interested groups as to what legislative recommendations the Board should make to the Congress.

Following this series of meetings, a special committee of the Federal Board, composed of the member who conducted the 12 district meetings and the 4 members appointed from nominees of the production credit associations, on the Federal Board, met for a number of days to summarize and study the results of the meetings, because records were kept of all meetings and proceedings of other special meetings.

This special committee then reported to the full membership of the Federal Board at its regular October meeting held at Hershey, Pa. This meeting of the Federal Board was held in conjunction with the National Farm Credit Directors' Conference, which is an annual meeting of the farm credit directors of all of the 12 districts.

The Federal Board discussed the results of the district meetings with the district directors and then adopted a tentative legislative plan providing for merger of the intermediate credit banks and the production credit corporations.

This plan was incorporated in a draft bill which was considered at a special meeting of the Board held the first week in November 1955. The revised draft of the bill was then taken back to the country—now this is the second meeting—in November for a second series of meetings, one in each of the 12 farm credit districts.

The purpose of this second series of meetings was to explain the provisions of the draft legislation developed by the Board and to give the reasons why the Board had adapted the particular plan incorporated in the bill.

These meetings were almost as well attended as the first series of meetings with 473 production credit associations—95 percent and 53 OFI's—63 percent represented.

It was explained to the group that the bill had been developed on the basis of the views of the majority of those who testified at the first series of meetings. Those in attendance were also invited to offer sug-

gestions for improvement in the bill and to make any comments regarding the proposed legislation.

At the conclusion of this series of meetings, the Federal Board held a special meeting the first part of December 1955 and agreed upon a final draft of the bill. This draft was then submitted to the Bureau of the Budget for the usual clearance.

I have gone into considerable detail in order that this committee may know that the bill recommended by the Federal Board is based on the views of the people directly concerned. The bill provides a plan which by far the greater majority of the production credit associations want and are willing to support.

Since these associations will have the major responsibility for retiring the Government capital in the credit banks and the corporations, it is proper that their views should have guided the Board in the development of its recommendations. We believe this was a sound democratic and fair approach.

We were advised by the Bureau of the Budget on March 14, 1956, that the Board's draft of the bill is a step in the direction of fulfilling the President's recommendation in his farm message of January 9, 1956, that the Federal intermediate credit banks and the production credit corporations be merged. The portion of the farm message in question reads as follows:

The Farm Credit Administration has been reorganized to give farmers a greater voice in its operation. Further legislation will be proposed to combine the production credit corporations and the Federal intermediate credit banks.

The Bureau of the Budget further advised, however, that the draft bill in its present form was not entirely in accord with the program of the President.

Mr. POAGE. Do you understand that that means there will be a veto of this bill if we pass it?

Mr. BRIGGS. I do not, that is my opinion.

Mr. POAGE. That was my opinion yesterday or the day before.

Mr. BRIGGS. I think there was more question about the other one than this one, Congressman Poage.

It stated that the following changes would need to be made in the bill to bring the Board's proposal into accord with that program:

1. Upon liquidation of any Federal intermediate credit bank, after payment of all liabilities and retirement of all stock and participation certificates at par (or face amount), any remaining portion of the surplus and reserves of the bank existing on the effective date of the new legislation (that would be now) should be paid into the Treasury as miscellaneous receipts. (That is the Budget's recommendation.)

Under the Board's proposal, such surplus and reserves would be prorated among the existing stockholders of the bank.

2. The Federal intermediate credit bank should continue, after merger, to be subject to the budget provisions of the Government Corporation Control Act so long as the Government owns any stock therein.

Under the Board's proposal, the banks would be taken out from under the budget provisions of that act but would remain under the audit provisions as are other "mixed-ownership Government corporations."

3. The total of the two revolving funds, available for investment in stock of the production credit associations and the Federal intermediate credit banks, should be held at the present level of \$130 million.

Under the Board's proposal, the total of these revolving funds would be increased to \$160 million out of capital presently in the system.

Now in the systems, in both banks: For reasons explained in his letter, a copy of which is attached, the Budget Bureau Director advised that the Farm Credit Administration could submit for the consideration of the Congress a draft of the bill proposed by the Federal Board, together with a draft of the bill amended to conform with the President's program as set forth in the letter.

A copy of that letter accompanied the submission of the two drafts of the proposed legislation to the Congress. The two bills differ only in the three respects set out above. H. R. 10285 is the draft recommended by the Federal Board.

The Federal Board finds itself in a difficult position. It does not wish to appear to be in opposition to the program of the President, yet H. R. 10285 represents the judgment of the Board as how best to carry out the objectives of section 2 of the Farm Credit Act of 1953.

As indicated, the Board's proposal has been developed in close cooperation with the production credit associations and the other users of the Federal intermediate credit banks. On the basis of the information obtained at the meetings held throughout the country, it is evident that the great majority of the production credit associations favor the Board's proposal.

The Federal Board feels that it has carried out its responsibility under the Farm Credit Act of 1953 by developing and presenting for your consideration its recommendations which are incorporated in H. R. 10285.

We have also tried to make clear how the Board's recommendations would need to be modified to make them accord with the program of the President set forth in the letter from the Director of the Bureau of the Budget. Whether the Board's proposal should be so modified is for the Congress to decide.

Mr. Chairman, before closing I should like to give the committee a brief report on operations to date under Title I of the Farm Credit Act of 1955 which became effective January 1 of this year. This brief report indicates the performance under the 1953 Act.

Title I of that act contains provisions under which the banks for cooperatives will gradually retire all Government-owned stock in those banks. This is to be accomplished in part by cooperative borrowers investing a class C stock (that is the voting stock) in amounts related to the interest on their loans from the banks.

The new law is applicable to all loans made after January 1, 1956, but not to loans made before that date except by agreement with the borrowers.

We are pleased to report that about 80 percent of all of the cooperative associations with loans outstanding on January 1, 1956, have voluntarily converted to the new basis and are purchasing class C stock of the banks.

Under the law a borrowing association owning the "old stock" of a bank has the right to have such stock retired upon repayment of the

loan. However, of the \$20.6 million of "old stock" of the banks owned by cooperative associations on January 1, 1956, 76 percent of that amount has now been voluntarily converted to the new class B and class C stock of the banks which cannot be retired until all Government capital in the banks has been repaid.

The conversion to class B and class C stock was made by 80 percent of the 2,562 associations which held stock in the banks on January 1, 1956.

Under the new law, the banks are required to retire each year an amount of Government-owned stock equal to the amount of class C stock issued for that year. It is estimated that enough class C stock will be issued during the 18-month period, January 1, 1956, to June 30, 1957, to enable the banks to retire between \$7.5 million and \$8 million of Government-owned stock in the banks.

The committee will also be interested to know that under the provisions of the Farm Credit Act of 1953 the banks for cooperatives have paid franchise taxes as follows:

<i>Period</i>	<i>Amount</i>
12 months to June 30, 1954-----	\$1, 166, 835
12 months to June 30, 1955-----	1, 533, 191
6 months to Dec. 31, 1955-----	660, 510
Total-----	3, 380, 536

We will just take a look at the production credit. I asked the office for these figures.

The Government's investment in the P. C. A. Association was originally \$90 million—that is the Government's investment. It is now \$2 million. The farmers have put their own capital into production credit associations to that extent.

The farmers had no money in the P. C. A.'s in 1934. They now hold \$98,326,000 of stock in the production credit associations. And they have reserves in the production credit associations of more than \$97 million.

This performance of the stockholders of the banks of the cooperatives, this performance of the farmers with PCA, undoubtedly indicates that if we give PCA the opportunity under this law that they will rapidly take out the Government capital in the two banks, intermediate credit bank and the Production Credit Corporation.

Thank you.

PRODUCERS LIVE STOCK CREDIT ASSOCIATION,
Columbus, Ohio, April 18, 1956.

Mr. M. J. BRIGGS,

*President, National Council of Farmer Cooperatives,
744 Jackson Place NW., Washington, D. C.*

DEAR MARVIN: During the annual meeting of the National Live Stock Producers Association in Chicago on March 28, you conferred with officers and management of the national association and of its affiliated credit associations regarding proposed credit bank legislation and policies thereunder. Reports and discussions of this conference were made on the following day to directors of the national association and to the managers' conference.

Since the meetings in Chicago, I have given considerable thought to the reports and proposals made and vigorously advanced by P. O. Wilson. In fact, we have reviewed the reports, proposals, and recommendations with officers of our Producers Livestock Cooperative Association and Producers Live Stock Credit Association.

Producers Livestock Cooperative Association and Producers Live Stock Credit Association have been users of and expect to continue to use the services of the

Bank for Cooperatives and the Federal Intermediate Credit Bank, respectively. We have, therefore, a stake in the organization, representation, and functioning of these divisions of the Farm Credit Administration. We have joined in the reorganization of the Louisville Bank for Cooperatives.

Regarding the reorganization of the Federal Intermediate Credit Bank, we should, of course, like to see the OFI's be accorded representation and considerations as nearly equal or comparable to those accorded PCA's as is possible. However, we think the plan finally agreed upon and proposed by you to the producers' group in Chicago may be, as we understand it, as near the desired objectives we seek as is possible to attain at this time. It seems obvious that no proposals can now be unanimously agreed upon which will fully satisfy all parties and assure immunity from later political implications. Such situations must be met as they arise by the leadership of the Farm Credit Administration and the authorized participants.

It seems to us wholly unwise to lose the goodwill of the Farm Credit leadership at this time by occasioning further delays by insisting upon provisions that are likely not now attainable. Furthermore, our producers' association was one of the first and foremost in the advocacy of your election to the positions of responsibility which you now occupy. We then had full confidence in you and your good judgment. Neither has been impaired. It would now seem to be manifestly unfair for us to withhold from you the cooperation you have a right to expect from those who were a party to the placement of Farm Credit responsibilities upon you. We believe that our interests will be best served by supporting you in your present views and recommendations and asking that you keep the interests of the users and administrators of the OFI's in mind always so that their relationships in the Farm Credit system and the considerations afforded them through the Federal Intermediate Credit Bank be in all regards as nearly equitable and comparable with PCA's as possible.

Be assured of our appreciation for your thoughtful efforts and of our continuing cooperation.

Sincerely and cordially,

F. G. KETNER,
Secretary-Treasurer and General Manager.

PRODUCERS MARKETING ASSOCIATION, INC.,
Indianapolis, Ind., April 12, 1956.

HON. CECIL M. HARDEN,
House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN: House bill 10285 as prepared by the Farm Credit Board and introduced in the House by Congressman Cooley, we believe fulfills a need in agriculture.

We believe it is sound, that the users of the Farm Credit system eventually own it. This has been accomplished in the Federal land banks and congressional legislation has set up a method to make this possible in the banks for cooperatives.

H. R. 10285 makes it possible for the same to be accomplished with the Federal intermediate credit banks and the production credit corporations. We believe this bill treats all users of these two corporations fair and equitable and warrants your support. Identical bills have been introduced by both Congressman Hope and Congressman Poage.

May we urge you to lend your support to this bill and work for its passage.

Yours truly,

WILLARD E. JONES, *President.*

Mr. POAGE. The Chair will ask that the questions be confined to questions relating to the procedure that was used in presenting these bills to the Congress. We will then call on Governor Tootell to discuss the mechanics of the bill. And I think we will proceed a good deal more rapidly that way than if we go over everything with every witness.

Are there any questions of this witness?

Mr. HARVEY. I have in front of me three bills here, one I understand, H. R. 10285 does represent the Board's proposal. Do either of the

other two bills, one introduced by yourself, Mr. Chairman, and Mr. Hope, represent that?

Mr. POAGE. They are identical, and the one by Mr. McIntire—all identical with the one by Mr. Cooley.

Mr. HARVEY. They are all identical?

Mr. POAGE. There is one by Mr. King that has not been printed. It was introduced yesterday afternoon. I understand that it represents the view of the Bureau of the Budget.

Mr. HARVEY. Very well.

Thank you.

Mr. POAGE. Any further questions of Mr. Briggs? If not, we thank you very much, Mr. Briggs; and Governor Tootell, we will be glad to hear from you.

STATEMENT OF R. B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION; ACCOMPANIED BY JOHN C. BAGWELL, GENERAL COUNSEL, AND HAROLD A. MILES, DEPUTY GOVERNOR AND DIRECTOR OF SHORT TERM CREDIT SERVICE, FARM CREDIT ADMINISTRATION

Mr. TOOTELL. I want to introduce some of my colleagues, Mr. Harold Miles who is Deputy Governor and Director of the Short Term Service, and General Counsel Bagwell, who is our General Counsel in Farm Credit.

If it meets with the approval of you and your committee, I should like to have filed in the record a formal statement that has been presented to the clerk of the committee and then I would like to talk rather informally and to explain the provisions of this bill.

Mr. POAGE. Yes, sir; we will be glad to have you do that.

(The prepared statement is as follows:)

STATEMENT OF R. B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION

Mr. Chairman and gentlemen of the committee, I greatly appreciate the opportunity to appear before you and present the views of the Farm Credit Administration on H. R. 10285, a bill which would make important changes in the laws relating to farm credit institutions concerned with short- and intermediate-term credit for farmers and ranchers.

The Chairman of the Federal Farm Credit Board has reviewed with you the development of this proposed legislation. Before discussing its provisions, I would like to present some background information about the Federal Farm Credit System.

The Farm Credit Administration is an independent agency within the executive branch of the Government. The agency consists of the Federal Farm Credit Board, the Governor, and other officers and employees. The Federal Board consists of 13 members, 12 of whom are appointed by the President with the advice and consent of the Senate. The 13th member of the Board is designated by the Secretary of Agriculture as his representative on the board. The Farm Credit Administration supervises, examines, and coordinates the activities of the credit agencies comprising the cooperative Federal farm-credit system. The Governor, under the general supervision and direction of the Federal Farm Credit Board is responsible for the execution of the laws creating the powers, functions, and duties of the Farm Credit Administration.

There are in each of the 12 farm credit districts a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. There is a Central Bank for Cooperatives located in the District of Columbia. Each district has a district farm-credit board which also serves as the board of directors of each of the four district institutions. Each district farm credit board consists of 7 members, 2 elected by the national farm-loan associa-

tions of the district, 2 by the production-credit associations of the district, 1 by the cooperative associations which hold voting stock in the district bank for cooperatives, and 2 members appointed by the Governor of the Farm Credit Administration.

The Federal land banks provide farmers and ranchers with long-term credit on farm real estate through approximately 1,100 national farm-loan associations. The Federal intermediate credit banks discount agricultural paper for and make loans to production-credit associations and other financing institutions (usually referred to as OFI's) which make short- and intermediate-term loans to farmers and ranchers. The production credit corporations are not themselves engaged in making loans but supervise the production credit associations. The banks for cooperatives extend credit to farmers' cooperative marketing, purchasing, and service cooperatives.

The cooperative Federal farm credit system provides qualified farmers with credit on a sound basis adapted to their needs and at interest rates based on the cost of money in the market plus the cost of operating the system, including provision for adequate reserves. Funds which are loaned by the farm-credit institutions are obtained largely from the sale of bonds and debentures to the investing public.

Each borrower from a Federal land bank is required to become a member of the national farm-loan association through which the loan is made. The association is a farmer-owned cooperative organization chartered and supervised by the Farm Credit Administration. The borrower subscribes to capital stock of the association in an amount equal to 5 percent of the face amount of his loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. Farmer members own all the capital stock of each of the approximately 1,100 national farm-loan associations; and the associations, in turn, own all of the capital stock of the Federal land banks. Thus, the Federal land bank system is completely farmer-owned and has been since 1947 when the last of the Government capital was retired.

The production-credit associations are cooperative organizations chartered by the Farm Credit Administration and supervised by the production credit corporations and the Farm Credit Administration. Each borrower from a production-credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. The amount of class A (nonvoting) stock of the associations originally owned by the production-credit corporations has been reduced from a peak of \$90 million to about \$2.2 million and 440 of the 498 associations are now entirely farmer-owned. The production-credit associations are, therefore, rapidly becoming wholly farmer owned.

Under the provisions of the Farm Credit Act of 1955, enacted during the first session of the 84th Congress, each borrower from a bank for cooperatives is required to purchase quarterly class C (voting) stock in the bank in an amount related to the quarterly interest payable on its loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). The net earnings of the banks, after reserves, dividends on class B (investment) stock, and franchise taxes are provided for, are required to be distributed in class C stock to borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in an amount equal to the amount of class C stock issued for that year. Over a reasonable period of years it is expected that funds from the interest "override" and from net earnings will enable the banks to retire all class A stock now owned by the United States.

You will note that these farm-credit institutions are either now wholly farmer owned or else they are becoming so under existing law. There remain, however, two farm-credit institutions—the production-credit corporations and Federal intermediate credit banks—which have always been and still are wholly Government-owned. Present law does not provide any means of converting either of them to farmer-owned institutions. H. R. 10285 would provide the legislative tools for completing the job of converting all institutions supervised by the Farm Credit Administration to wholly farmer-owner institutions.

Before getting into the provisions of the bill, I should like to make a further statement with respect to those institutions principally affected by the proposed legislation.

FEDERAL INTERMEDIATE CREDIT BANKS

The 12 Federal intermediate credit banks were established in 1923 to provide agriculture with a permanent, stable, and dependable source of short- and intermediate-term agricultural credit. They were organized to serve as banks of dis-

count and not as direct lending banks. They were authorized to discount agricultural paper for commercial banks and certain other types of private lending institutions and, later, for the production credit associations organized under the Farm Credit Act of 1933. In addition, the banks are authorized to make loans to and discount paper for the banks for cooperatives and to make certain types of loans direct to farmers' cooperative associations.

Prior to the establishment of the Federal intermediate credit banks, seasonal and short-term credit for agriculture was supplied principally by country banks, individual lenders, and merchants, including manufacturers and distributors of implements, machinery, fertilizer, etc. There were also a few agricultural credit corporations and livestock loan companies which, in turn, obtained funds for lending purposes by borrowing from and rediscounting with commercial banks. Under the Federal Reserve Act of 1913, the Federal reserve banks were authorized to discount agricultural paper with maturities up to 6 months offered by member banks.

Aside from emergency seed loans made by the Government, beginning in 1921, and the discounting of agricultural paper by the War Finance Corporation for a short period, there were no other Federal facilities available to meet the seasonal credit needs of farmers and ranchers until 1923.

The agricultural credit situation in the early 1920's was in a disorganized state. Credit was often difficult to obtain when most needed. Loans available from commercial banks were usually for 90 days, which was too short a period to meet the annual cycles of production, harvesting, and marketing peculiar to agriculture. It had become evident that the seasonal production credit needs of agriculture were not being met by existing agencies. As a temporary measure the Congress, in 1921 and 1922, amended the War Finance Corporation Act of 1918 to permit that corporation to make commodity loans to farmers' cooperatives and to extend credit to banks and to agricultural and livestock credit corporations to enable them to make and carry loans to farmers and ranchers. The agricultural lending powers thus given to the War Finance Corporation and its experience in that field in 1921 and 1922 proved most helpful in developing a permanent system for seasonal agricultural financing. It demonstrated that what agriculture needed was a source of credit based upon funds drawn from the investment markets of the country and not dependent upon local deposits.

In the light of these conditions, and after exhaustive studies and investigations, the Congress undertook to provide the means whereby investment funds could be made available to finance the production and marketing credit needs of agriculture. Since individual farmers and local lending institutions could not reach investors in the financial centers directly, it was concluded to set up an institution or system which, on the basis of obligations of a large number of farmers operating over a wide area, could sell its obligations in the large money centers. This would make funds available to agriculture on terms suited to the needs of farmers and ranchers and at rates of interest comparable to those paid by industry. The Federal intermediate credit banks were created to provide that service.

The establishment of the Federal intermediate credit banks as a secondary source of credit was expected to benefit farmers by enabling banks in agricultural areas to carry farmers' and ranchers' loans for longer terms, since they could rediscount the paper when in need of funds, and by encouraging the organization and operation of privately capitalized financing institutions which would make loans to farmers and rediscount them with these new banks. Some commercial banks did avail themselves of the services of the credit banks for a time and a considerable number of credit corporations were organized and operated for several years after the credit banks were established. A high percentage of the local credit corporations liquidated a few years after their organization. Inadequate capital, incompetent management, unprofitable operations, unsound lending practices, and lack of supervision were important factors in the relatively short life of many of these institutions.

As unfavorable agricultural and economic conditions became more acute in the early 1930's, it became apparent that the short-term credit needs of agriculture were not being met because of the inadequacy of local institutions which could make the loans in the first instance, even though the rediscount facilities were sufficient to provide the necessary funds through sales of securities in the investment markets. Efforts to have local interests establish credit corporations and loan companies eligible to borrow from the credit banks were largely unsuccessful by reason of the lack of funds to capitalize such corporations. Thus,

by reason of the inability of private lending agencies to meet the need for short-term agricultural credit, the objectives sought through the establishment of the intermediate credit banks were not fully accomplished. An adequate source of secondary credit was of little benefit to agriculture if primary lenders did not make the funds available to individual farmers. It was in this setting that the Congress provided, in the Farm Credit Act of 1933, for the establishment of a system of local cooperative production credit associations which would make the rediscounting services of the Federal intermediate credit banks available to every farmer in the United States who has a satisfactory basis for credit.

As a result of the growth and development of the production credit system, the major part of the credit business of the banks is now done with the production credit associations. During the fiscal year 1955, about 88 percent of the banks' average daily balances of loans and discounts outstanding were accounted for by the production credit associations. In the fiscal year 1954, that percentage was 87. Among the farm credit districts this percentage ranged in the fiscal year 1955 from 66 to 96 percent.

Most of the business now handled by the credit banks for institutions other than the production credit associations, that is the OFI's, is for State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

The Federal intermediate credit banks were provided with an initial capital of \$5 million for each bank subscribed by the United States. Additional capital for the credit banks was provided by an act of Congress approved January 31, 1934. That act made available to the Farm Credit Administration a revolving fund of \$40 million and authorized the Governor, with the approval of the Secretary of the Treasury, to subscribe for and to pay in such additional capital and paid-in surplus as he deemed necessary to enable any intermediate credit bank to meet the needs of its eligible borrowers. As of December 31, 1955, the Government's capital investment in the banks was \$62.4 million consisting of the original \$60 million of capital stock and \$2.4 million of paid-in surplus. The law has never provided for ownership of capital stock of these banks except by the United States.

The intermediate credit banks finance their lending operations primarily through the issuance and sale to the investing public of consolidated collateral trust debentures and by direct borrowings from commercial banks. During the fiscal year 1955, these banks issued \$1,046,330,000 of debentures. At the end of that fiscal year there were \$793,480,000 in debentures outstanding. These debentures are the joint and several obligations of the 12 Federal intermediate credit banks. They are not guaranteed either as to principal or interest by the Federal Government.

PRODUCTION CREDIT SYSTEM

This system consists of 12 production credit corporations, which are wholly Government-owned, and 498 production credit associations, 440 of which are wholly farmer-owned.

The production credit corporations were established under the Farm Credit Act of 1933 to organize, capitalize, and supervise the production credit associations in order to provide agriculture with a permanent and dependable source of short-term credit on a cooperative basis.

The production credit corporations were capitalized by stock subscriptions on behalf of the United States out of a revolving fund of \$120 million. As each production credit association was organized, the district production credit corporation subscribed to a sufficient amount of its class A (nonvoting) stock to permit it to begin lending operations. As stated above, each borrower from the association is required to own class B (voting) stock in an amount equal to 5 percent of the amount of the loan. Farmers and ranchers own approximately \$23 million of class A (nonvoting) stock in their associations. This is an investment they have made above what the law requires them to own in connection with their loans. Most of the associations have chosen to devote all their net earnings to building up their financial strength. As a result, their members have foregone any return on their stock investment. This has been done as a matter of loyalty to their association and to speed the day when their local association might be completely member-owned. As capital investments by members grew and earnings of the associations accumulated, the capital stock held by the corporations was retired and the proceeds returned to the corporations. This plan of operation has enabled the associations to retire all but about \$2.2 mil-

lion of the approximately \$90 million of Government capital invested in them and only 58 associations have any Government capital left.

As of December 31, 1955, the corporations had outstanding capital stock owned by the United States in the amount of \$31,350,000 and earned surplus and reserves of about \$13,500,000. There remains in the revolving fund \$58,650,000 available for future subscriptions to the stock of the corporations, \$30 million having been returned in 1949 from the revolving fund to the general fund of the Treasury. The operating costs of the corporations are paid out of earnings on the investment of their Government capital and out of their earned surplus and reserves.

As of December 31, 1955, about 479,000 farmers and ranchers owned capital stock (class A and class B) of the associations amounting to approximately \$98 million. The surplus and reserves of all associations totaled \$97 million on that date. In addition to these accumulated earnings, the associations had set aside out of earnings about \$10 million as specific and general provisions for bad debt losses. The associations are authorized to issue class C stock but so far none has been issued. The volume of loans made by the 1498 associations during the calendar year 1955 was approximately \$1,400 million. We believe these figures clearly show the progress that has been made in building a sound, cooperative production credit system for agriculture.

The function of the corporations to organize and capitalize the production credit associations has been largely achieved. There is, however, a continuing need for production credit associations to have available to them revolving fund capital which can be subscribed to supplement their members' capital when necessary and appropriate in order to maintain credit service. This important function must be continued after merger and the legislation before you makes adequate provision for this in order that the associations may be able to meet the credit needs of agriculture.

The most important remaining function of the corporations is that of assisting in supervising the production credit associations. Supervision and training in credit and operating matters have been important factors in the growth and development of the local associations, both as to their financial strength and in extending sound credit service to agriculture. The production credit corporations prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations also assist in the training of employees, prescribe and approve loan interest rates, approve the compensation of personnel, and generally guide the associations in the conduct of their business and service to agriculture. We believe that important supervisory functions must be continued and the legislation makes adequate provision therefor as will be explained later.

I will now discuss the provisions of the bill.

The bill contains an important statement of policy relating to agricultural credit. It is declared to be the major purpose of the bill to continue to provide agriculture with a sound, dependable, and effective source of credit. To that end the policy of the legislation is to encourage and promote the continued growth and development of the production credit associations as self-supporting, cooperative lending institutions serving the needs of agriculture. The policy declaration also, in effect, dedicates the credit banks to the service of all agriculture. Its facilities are declared to be equally accessible to the production credit associations and to all other eligible primary lenders. This would be true even after the production credit associations became the owners of the banks. Continued availability of the facilities of the banks to all qualified primary lenders, both within and without the Federal Farm Credit System, is essential to a nationwide agricultural credit system. The facilities of the credit banks are of benefit to farmers only to the extent that funds reach them through primary lenders. It is in the interest of agriculture generally to protect all users of the credit banks and the policy statement is designed to do just that.

Merger of corporations and credit banks

Section 101 of the bill provides for the merger of the production credit corporation of each district in the Federal intermediate credit bank of the district. The merged institution would continue to be known as the Federal intermediate credit bank. Except for stock in the production credit associations now held by the production credit corporations, all assets of the corporation would be

transferred to the credit bank and the bank would assume all obligations of the corporation. The stock which the production credit corporations now hold in the production credit associations would be transferred to the Governor and a like amount of stock which the Governor now holds in the corporations would be canceled.

Section 101 of the bill provides for a continuation of the necessary supervisory and service functions heretofore performed by the production credit corporations. Most of these functions would be transferred to the credit banks. The need of the production credit associations for assistance and supervision is generally recognized.

The Federal Board deliberated at length the question of how best to provide the associations with the necessary supervision and assistance. It was first thought that the production credit corporations should continue to perform these functions and the farm credit bill considered by this committee last year so provided. After obtaining the views of the production credit associations and upon further consideration of the problem, the Federal Board has concluded that these functions can be carried out effectively by the credit banks at some overall savings in cost. In addition, merger of the corporations in the credit banks will simplify the corporate setup of farm credit at the district level and, we believe, result in an improved credit service to farmers and ranchers.

The bill directs the Farm Credit Administration to provide for the organization and assignment of functions within the credit banks in a manner which will assure proper supervision of and assistance to the production credit associations. This would authorize a separation of discounting and supervisory functions within the banks if deemed necessary to assure helpful and effective supervision of the associations independent of the present discounting functions of the banks. Although all officers and employees of the bank would be responsible to the president and the board of directors, under such a separation those directly responsible for discounting operations would not be responsible for supervising the institutions rediscounting with the banks. Thus, the bill obligates the Farm Credit Administration to provide for appropriate handling of the discounting and supervisory functions of the merged institutions consistent with recognized principles of good business management.

The cost of these supervisory and service functions would be paid by the banks. The income derived from the existing surplus of the production credit corporations which is now devoted to the payment of such costs would continue to be so used after merger. It is anticipated that the merger will result in substantial savings in operating costs.

Section 101 of the bill also provides the manner in which the board of directors of each bank shall select officers and employees for the merged institution. The officers and employees of the bank and corporation would become officers and employees of such institution to the extent they are qualified and needed. The bill is so drawn that there would be no break in the continuity of service of officers and employees who are retained and consequently their retirement rights would be protected.

Stock of the banks after merger

Section 102 of the bill contains amendments which would provide a new capital structure for the banks. After merger there would be two classes of stock: class A with a par value of \$100 and class B with a par value of \$5. The banks now have only one class of stock, all of which is owned by the Government.

Class A stock.—On the effective date of the legislation, the present stock of each credit bank now held by the Secretary of the Treasury, amounting to \$60 million for all twelve banks, would be transferred to the Governor of the Farm Credit Administration. The Governor would be authorized to reallocate this capital by appropriate transfers of funds among the several banks. Under existing law each bank is required to have a minimum paid-in capital of \$5 million, regardless of its volume of business. Under the proposed authority to reallocate present capital the Farm Credit Administration would be able to provide each bank with a capital structure more nearly in proportion to its volume of business and related borrowings. After this adjustment in the capital of the banks, the then existing stock of each bank would be exchanged for an equal par amount of class A stock of the bank. Stock of the production credit corporations held by the Governor on the effective date of the legislation, less the amount canceled by reason of the transfer of the production credit association stock held by

the corporations, would also be exchanged for an equal par amount of class A stock of the banks. All such class A stock would be held by the Governor on behalf of the United States and no dividends would be paid on such stock.

The bill provides for the retirement of class A stock on a flexible basis. Whenever the net worth of the bank amounts to more than one-sixth of its highest month-end balance of debentures and other such obligations outstanding during the preceding 5 years, the minimum amount of class A stock which the bank would retire would be the total amount of class B stock and participation certificates issued for that year. As will be explained later, class B stock would be issued to the production-credit associations and the participation certificates would be issued to the OFI's. Whenever at the end of any fiscal year the net worth of the bank amounts to one-sixth or less of such outstanding indebtedness, the amount of class A stock to be retired would be determined by each bank. Thus, the provisions relating to the retirement of class A stock afford a considerable degree of flexibility and would permit the banks to accelerate or retard retirements of capital stock in accordance with variations in the credit demands upon them.

The proceeds from the retirement of class A stock would be paid into the Treasury as miscellaneous receipts until there is so pair a sum equal to the amount of class A stock issued by the bank in exchange for the stock of the production credit corporation of the district. The proceeds from further retirements of class A stock of the bank would go into the revolving fund which under present law is available for investment in capital stock of the credit banks when the need therefor arises. The present \$90 million revolving fund available for investment in capital stock of the production credit associations would be reduced to \$60 million.

Class B stock.—Class B stock would be issued only to production-credit associations. The associations would be required, within 60 days after the effective date of the legislation, to subscribe to an aggregate amount of class B stock equal to 15 percent of the total amount of class A stock of all 12 banks. In dollars, this would amount to about \$13 million for all 498 production credit associations. This amount would be apportioned among the associations on the basis of their use of the banks during the previous 5-year period; that is, each association would be required to subscribe to class B stock in an amount slightly in excess of 2 percent of the average amount of the loan and discount indebtedness of the association to the bank during the immediately preceding 5 years. The associations would be given a period of 2 years in which to pay for such stock subscriptions.

The class B stock subscription of an association with a \$1 million average volume of loans and discounts with the bank would be approximately \$20,000. This subscription would be paid in three installments. One-third, or approximately \$6,700, would be paid within 2 months after the effective date of the legislation, another one-third would be paid within a year, and the remaining one-third would be paid within 2 years. A typical production credit association with an average volume of loans and discounts of \$1 million at the bank probably would have a net worth ranging between \$275,000 and \$300,000.

The bill is designed to permit maximum flexibility in setting the banks' discount rates which will determine their earnings. During periods of relatively high money costs, or of unsatisfactory agricultural conditions, it is expected that the spread or margin between the discount rate and the cost of money to the banks would be narrow. When money costs are relatively low and agriculture is in a more satisfactory condition the interest spread would be wider, the earnings of the banks would be greater, and Government capital would be retired more rapidly. This flexibility in the rate of paying off Government capital in the credit banks is one of the important features of the bill. It keeps before the banks and associations the goal of adequate progress toward retirement of that Government capital, but permits a desirable and necessary degree of latitude in the amount of annual payments for that purpose. It will protect the associations from the rigidity of a fixed schedule of annual payments, which in times of high money costs and reduced net income in agriculture would place undue additional burdens on the associations and their members.

It is estimated that after the merger becomes effective the 12 Federal intermediate credit banks as a system will be able to meet their operating costs out of investment income and an average interest spread of one-tenth of 1 percent between their lending rates and the cost of money. In other words, taking investment income into account, the average "break even" point for the 12 banks will be about one-tenth of 1 percent, although that rate will vary

among the different banks. It is expected that over the entire period of purchase this spread will average around one-half of 1 percent. The average spread during the past 10 years has been slightly less than four-tenth of 1 percent. With an average spread of one-half of 1 percent it is expected that most of the banks would retire all Government capital within a period of less than 30 years. Some banks would pay out in less than 20 years. These estimates are based upon the assumption that the future volume of business of the banks will be slightly more than their present loan and discount volume.

After all class A stock is retired, noncumulative dividends of not to exceed 5 percent would be authorized to be paid on class B stock and participation certificates. After all class A stock is retired, the banks would be authorized to retire class B stock at par and participation certificates at face amount in accordance with the cooperative principle of retiring first the oldest outstanding stock and certificates. In the event of liquidation or dissolution of a production credit association or an OFI, the bank could at any time also retire at book value, not exceeding par or face amount, class B stock and participation certificates of the bank owned by such association or institution.

Lien on stock and participation certificates.—The bank would have a first lien on all stock in the bank owned by the production-credit associations and on all participation certificates owned by OFI's as additional collateral for any indebtedness owing by the holders to the bank. The bank, however, would be prohibited from making any loan or advance on the security of its own stock or participation certificates.

Application of earnings

Section 103 of the bill contains amendments which would provide a new method for application of net earnings of the banks. After providing for valuation reserves and for any losses in excess of such reserves, the net earnings of each bank would be applied, first, to restoring any impairment in the capital stock and participation certificates; second, to restoring any impairment in the surplus account of the bank; third, 25 percent of the remaining net earnings would be used to create and maintain a reserve account equal to 25 percent of the outstanding stock and participation certificates of the bank; fourth, if any class A stock is outstanding during all or any part of the fiscal year, the bank would pay 25 percent of the remaining net earnings to the Treasury as a franchise tax, not exceeding, however, a rate of return on the Government's investment in the bank equal to the average cost of money to the Treasury; fifth, if no class A stock is outstanding, the remaining net earnings would be available for payment of dividends of not to exceed 5 percent on class B stock and participation certificates; and sixth, any remaining net earnings would be distributed as patronage refunds to the production credit associations and the OFI's patronizing the bank. As long as there is any class A stock outstanding, patronage refunds would be paid in class B stock to the production-credit associations and in participation certificates to the OFI's. After all class A stock is retired, patronage refunds could be paid in class B stock and participation certificates or in cash at the election of the bank. Recipients of patronage refunds in the form of class B stock and participation certificates issued at the time class A stock is outstanding would not be subject to Federal income taxes on such refunds. Since the class B stock and participation certificates would have no realizable cash value, they would not in any real sense constitute income to the recipients. This exemption would not apply to patronage refunds made after all class A stock of the bank is retired.

Section 103 of the bill also specifies how losses are to be absorbed in any year in which the bank has a net loss. Such losses would be charged, first, to the reserve account; second, to surplus other than that transferred to the bank from the production-credit corporation; third, to surplus transferred to the bank from the production-credit corporation; fourth, by impairment of class B stock and participation certificates; and fifth, by impairment of class A stock.

Surplus account

Under section 103 of the bill, each bank would be required, on the effective date of the legislation, to establish a surplus account consisting of its earned surplus, its reserve for contingencies, and the surplus transferred to the bank from the production-credit corporation. For all 12 banks this would amount to about \$62.5 million. This surplus would not be allocated and it could not be paid out in the form of patronage or other dividends. It would be "frozen" as a part of the permanent structure of the bank. Such surplus would, however,

be available to absorb losses but any impairment would have to be restored before net earnings could be used to pay dividends.

Distribution of assets upon liquidation

Section 103 of the bill also provides for the distribution of assets in the event of liquidation or dissolution of any bank. After payment of debts, class A stock would first be retired at par and then class B stock and participation certificates would be retired at par or face amount. The remaining assets would be distributed, first, by prorating among class A and class B stockholders any surplus established on the effective date of the legislation; and second, by prorating any residual assets among the holders of class B stock and the holders of participation certificates.

Discounts and loans

Section 104 of the bill contains a number of amendments to existing law relating to the discount and lending authority of the credit banks.

Under present law a credit bank may make loans to production-credit associations upon any security approved by the Governor of the Farm Credit Administration, such as Government bonds, but loans to OFI's may be made only on the security of agricultural paper eligible for discount by the bank. Section 104 of the bill would remove this discrepancy and permit loans to OFI's on such collateral as may be approved by the Governor, provided the proceeds are used to make or carry loans for agricultural purposes.

Under present law the credit banks are authorized to make certain types of loans direct to farmers' cooperative associations. This authority duplicates to some extent the lending functions of the banks for cooperatives. Under section 104 of the bill the banks could make loans to farmers' cooperative associations only to enable them to make loans to farmers and ranchers for agricultural purposes. This section of the bill also would permit credit banks to make temporary loans to Federal land banks and banks for cooperatives upon terms and at interest rates approved by the Farm Credit Administration.

The credit banks now have authority by law to discount paper with maturities up to 3 years. Section 104 of the bill would increase this limit to 7 years. This provision would permit the production-credit associations and OFI's to meet the demands of farmers for longer term loans. It is recognized, of course, that farmers and ranchers have need for loans for semicapital purposes which ordinarily require more than 1 year to repay. Such purposes would include bulk milk tanks, heavy equipment, soil-conservation practices, farm buildings and repairs, and other comparable items. The associations have always financed operations of these types, but have taken 12-month notes and freely renewed the balance where performance has been satisfactory. However, a strong demand has arisen for more realistic terms of maturity for obligations of the types mentioned. This amendment will permit the credit banks to discount loans with longer maturities in proper cases and thus render a more flexible and effective credit service in this field.

Under existing law discount and interest rates charged by the credit banks may not, except with the approval of the Governor of the Farm Credit Administration, exceed by more than 1 percent the interest rates borne by the last preceding issue of credit-bank debentures. Section 104 of the bill would remove this limitation and authorize the credit banks to determine the discount and interest rates to be charged by them, subject to the approval of the Farm Credit Administration. The bill would require that the same interest rates apply to both the production credit associations and the OFI's.

Section 104 of the bill would also amend existing law to authorize the Federal land banks to make loans to the credit banks and to banks for cooperatives. This and other provisions of the bill, coupled with provisions of existing law, would authorize complete interbank borrowings within the Farm Credit System upon terms and rates of interest approved by the Farm Credit Administration. Frequently the need of some banks of the system for funds for short periods could be met by loans from other banks with idle funds. It is in the interest of economy and efficiency to permit such interbank borrowings.

The remainder of title I of the bill contains, for the most part, amendments to the Farm Credit Acts of 1933, 1937, and 1953. These amendments are largely technical changes made necessary by reason of the merger of the production-credit corporations and the Federal intermediate credit banks. One of the changes, however, dealing with the revolving funds, is important enough to comment upon.

Revolving funds

Section 105 of the bill would amend section 5 of the Farm Credit Act of 1933 to reduce to \$60 million the revolving fund which is now available for the purchase of stock in the production credit corporations but which, under the terms of the bill, would become available for the purchase by the Governor of the Farm Credit Administration of stock in production credit associations. This revolving fund was originally \$120 million but \$30 million thereof was returned in 1949 to miscellaneous receipts of the Treasury. It is our feeling that a revolving fund of \$60 million would be adequate for the purpose of capitalizing production credit associations, including reinvestment in class A stock of those associations needing additional capital because of drought or other adverse conditions.

Section 105 of the bill would also increase from \$40 million to \$100 million, from capital already in the system, the revolving fund out of which the Governor is authorized to purchase capital stock of the credit banks. Under this provision of the bill the proceeds from the retirement of class A stock of the banks, amounting to \$60 million for all 12 banks, would be paid into the revolving fund and continue to be available for reinvestment in the credit banks as the need therefor arises. In view of the present agricultural situation, it is anticipated that short-term credit in increasing volume will be required by farmers and ranchers and it is essential that adequate capital funds be available to support borrowings by the banks to finance the volume of credit they will be called upon to supply.

Miscellaneous provisions

Section 201 of title II of the bill would remove the credit banks from the group of "wholly owned Government corporations" named in section 101 of the Government Corporation Control Act and add them to the "mixed-ownership Government corporations" named in section 201 of that act. This would mean that the credit banks would no longer be subject to the budget provisions of that act requiring the submission of an annual budget program and an annual authorization by the Congress for the expenditure of the banks' funds for administrative expenses. As "mixed-ownership Government corporations," the banks would continue to be subject to audit by the General Accounting Office as long as there is any Government capital in them. The amendments contained in section 201 of the bill would give the Government Corporation Control Act the same applicability to the credit banks as it has to the Federal land banks and the banks for cooperatives.

Section 201 of the bill would also amend the National Bank Act to remove the present limitation on national banks investing in debentures issued by the banks for cooperatives. A national bank is now prohibited from investing in such securities an amount exceeding 10 percent of its paid-in capital and unimpaired surplus. This limitation is not applicable to bonds issued by the Federal land banks or to debentures issued by the Federal intermediate credit banks and the proposed amendment would place all such farm credit securities on the same basis insofar as their purchase by national banks is concerned.

I should like now to discuss more specifically the status of financing institutions other than the production credit associations under the proposed legislation. These other financing institutions (usually referred to as OFI's) consist largely of privately owned credit corporations, various types of cooperative credit institutions, and a few commercial banks. The OFI's, except national banks and Federal credit unions, are chartered under the laws of various States and none of them is subject to supervision by the Farm Credit Administration. Unlike the production credit associations which are restricted to borrowing from and rediscounting with the credit banks, the OFI's are free to obtain funds from any source to finance their lending operations. There are at this time approximately 90 OFI's rediscounting with and borrowing from the credit banks. During the fiscal year ended June 30, 1955, they contributed about 9 percent of the volume of business of the 12 banks. Among the several districts these percentages ranged from 1½ percent in Columbia to nearly 25 percent in the Berkeley bank.

Some of the OFI's have expressed objection to the legislation for reasons which you doubtless will hear from them directly during the course of the hearings. We in Farm Credit feel that the services of the intermediate credit banks should continue to be fully available to such institutions as heretofore. It is the

declared purpose and intent of the proposed legislation to assure a continuation of such services. It is our view, therefore, that the objections to the bill voiced by some OFI's are not well founded.

One of the principal objections of the OFI's to the proposed legislation is that they would not be permitted to acquire ownership in the banks on the same basis as the production-credit associations. The Federal farm credit system is made up of cooperative institutions supervised by the Farm Credit Administration. They are, for the most part, farmer owned and the policy of the Farm Credit Act of 1953 is to encourage and facilitate increased farmer ownership and control of all institutions in the system. The OFI's with which the credit banks are authorized to deal consist of a wide variety of types of organizations. They include State and national banks; agricultural credit corporations organized by banking interests and operated as affiliates or companion lending agencies; agricultural and livestock credit corporations set up as subsidiaries or affiliates of farmers' cooperative associations; and credit corporations organized by small groups of local investors to engage in the lending business. Credit unions also may rediscount with and borrow from the credit banks. Thus, the OFI's represent widely differing interests. They are organized under statutes of various jurisdictions; they do not serve common purposes or objectives and are not under a common supervisory authority. The majority of them are organized and operated for profit and are not farmer owned.

In contrast to OFI's, the production credit associations are local cooperative farmer-owned organizations which exist for the single purpose of making sound loans to their members; they are organized and operate under a single Federal statute, with similar policies and objectives; they are subject to a consistent pattern of supervision and examination through the Farm Credit Administration; they elect 2 members of the 7-man board of directors in each district and participate in the nomination of persons for consideration by the President in selecting members of the Federal Farm Credit Board; and these associations furnish the great bulk of the business of the credit banks. It is wholly consistent with the concept of the Federal farm credit system, as a coordinated group of cooperative institutions to be owned by farmers and ranchers, but the purchase of the credit banks should be accomplished by the production credit associations acting together to that end.

The fear has been expressed that once the credit banks are completely owned by the production-credit associations an effort will be made to have the services of the credit banks limited to production-credit association business. There are two reasons why this cannot happen. First, the declared policy of this bill makes it perfectly clear that the services of the credit banks shall continue to be available to the OFI's on the same basis as to production-credit associations even after the banks are completely owned by the associations. Secondly, under the bill the banks will continue to be controlled by the several district farm-credit boards and operate under the general supervision of the Federal Farm Credit Board. The production-credit associations elect only 2 of the 7 members of the district board. The district board and the Federal Board are set up to represent all phases of agricultural financing and have responsibility for proper administration of the laws enacted by the Congress. It is inconceivable to us that the district board or the Federal Board would permit discrimination in any way against the OFI's. Indeed, under the provisions of the bill it would be contrary to law for them to do so. Therefore, under the provisions of the bill and in view of the broad representation on the district board and the Federal Board, the OFI's need have no fear about their right to the continued use of the facilities of the credit banks.

To summarize, the proposed legislation provides definite rights and benefits to the OFI's as follows:

1. The OFI's are guaranteed the right to utilize the credit facilities of the Federal intermediate credit banks upon the same terms and at the same rates of interest as the production credit associations.

2. The banks would be authorized to make direct loans to OFI's on the security of any collateral approved by the Governor, as may now be done for the production-credit associations. The present law does not specifically authorize direct loans to OFI's except on the security of notes eligible for discount by the banks.

3. The production-credit associations are restricted to borrowing from and rediscounting with the credit banks, whereas the OFI's are free to obtain funds from any source.

4. The OFI's would share in the future net earnings of the credit banks on the same basis as the production-credit associations, that is, on the basis of patronage. If a dividend is paid on class B stock held by production-credit associations, a like dividend must be paid on participation certificates held by OFI's.

5. Participation certificates held by OFI's would be entitled to the same rights as those applicable to class B stock held by production-credit associations with respect to retirement of such holdings. Although liquidation or dissolution of the credit banks is not intended or foreseeable, the OFI's would in such eventuality share in the surplus and reserves of the banks accumulated after the effective date of the bill on the same basis as the production-credit associations.

Mr. TOOTELL. I would like to review just a little bit and refresh your thinking on the farm credit system. The Farmer Credit Administration is a Federal agency which in 1953 became again an independent agency of the Government in the executive branch.

While we still are housed over in the South Agriculture Building, we no longer are a part of the Department of Agriculture. The agency consists of the Federal Farm Credit Board of 13 members, the Governor of the Farm Credit Administration and his staff.

Twelve of the members of this Board are appointed by the President from nominees that are elected by the users of the system. Nominees are elected by the users of the land banks, by the users of the co-op banks and by the production-credit associations.

The function of this Federal agency, the Farm Credit Administration, is to supervise, to coordinate the activities of, and to examine the district units and local units that make up the farm credit system.

There are 12 farm credit districts in the United States, and in each of them there are 4 distinct institutions: A Federal land bank, an intermediate credit bank, a production credit corporation, and a bank for cooperatives. Those are common to all 12 farm credit districts.

Each of these districts has a governing board of seven men. Five of them are elected by the users of the system and two appointed by the Governor of the Farm Credit Administration.

When the co-op banks retire some more of their Government capital they will elect a second representative on district boards and the Governor will appoint but one member of the district boards.

The district board of seven members serves as the board of directors of each of these four district corporations.

The Federal land banks are the agencies that make long-term mortgage loans to farmers, through the National farm loan associations. There are 1,100 of those local cooperative farm loan associations in the United States, and it is through them that farmers make application for and have their Federal land-bank loans closed.

The Federal intermediate credit banks are banks of discount for agricultural loans that are made primarily for agricultural production purposes.

The production-credit corporations were created to bring into being and to supervise the production-credit associations of which there are 498 in the United States.

The banks for cooperatives make loans to farmers cooperative associations which are engaged in marketing and purchasing or service activities of various kinds. This cooperative farm-credit system which had its beginning back in 1916 when the land banks first came into being, provides a well-rounded and dependable source of credit that is tailored to meet the needs of farmers.

The farm credit institutions largely lend money which they obtain by selling their bonds and debentures in the investment market. Each of these four farm credit institutions was originally capitalized by the Federal Government.

By 1947 the 12 Federal land banks had retired all of the Government capital in them and were entirely owned by their farmer borrowers.

The production credit associations are cooperative organizations that are chartered by the Farm Credit Administration and supervised by it. Each borrower from a PCA subscribes to stock in his local PCA equivalent to 5 percent of his loan. And it is largely in this way that the PCA's have built up their capital structure and retired Government capital.

Mr. Briggs mentioned to you that the PCA's in 1934 had \$90 million of Government capital invested in them. And they have retired all but \$2,200,000 of that amount of capital which we feel is a very fine record.

You will note that two of these farm credit institutions, the land banks and the co-op banks, now have either retired their Government capital or they have a means by which they are currently engaged in the process of systematically retiring Governing capital. But such provisions has never been made so far as the intermediate credit banks and the production credit corporations are concerned. This legislation proposes a mechanism whereby over a period of time and as these farmers cooperative credit institutions are able to, they will retire the remaining Government capital in the system.

I want to talk now a little more in detail about the two institutions which are principally affected by this legislation, namely, the intermediate credit banks and the production-credit corporations.

The intermediate credit banks are banks of discount. They make no loans directly to individual farmers but rather they discount paper for agencies that are primary lenders and do make loans directly to farmers.

I am sure that all members of this committee are familiar with the history of agricultural credit going back to 1920 and even before that and know that farmers were largely dependent upon mercantile credit and upon commercial banks which were not designed to meet the needs of farmers. Often at a time when farmers most needed credit the local bank was short of deposits and did not have lending funds.

We know of the rather hectic credit situation in agriculture in the early 20's growing out of the depression following World War I, and the fact that the War Finance Corporation came into the picture and rendered some temporary assistance. The first Government seed loan came into being about 1921, I believe, and it was out of this background and this unsatisfactory short-term credit situation in agriculture that the Congress passed the Agricultural Credits Act of 1923 that brought into being the 12 Federal intermediate credit banks.

That provided a mechanism by which the farmers of this country could pool their credit and go into the investment markets and hire funds at favorable rates of interest, at rates of interest comparable to the rates charged commercial concerns.

The establishment of the credit banks as banks of discount was just one step in meeting this need, and the Congress assumed that the pri-

mary lenders would come into existence to effectively use these services.

As a matter of fact, since the credit banks were created in 1923 there have been about 1,200 agricultural credit corporations and related institutions which we call OFI's, other financing institutions, which have availed themselves of the discount privileges with the intermediate credit banks. A higher percentage——

Mr. DIXON. Will you yield to one question?

Mr. TOOTELL. Yes.

Mr. DIXON. I have had some complaint from these OFI's about this bill. It might be in order to have him make a statement there about that. I would like to know what effect the bill would have on the OFI's.

Mr. TOOTELL. If you do not mind in the development of my presentation, my remarks here, I shall try to bring that out.

Mr. DIXON. Thank you very much.

Mr. TOOTELL. A high percentage of these credit corporations and OFI's,—these 1,200 that used the facilities of the credit banks—went broke or voluntarily went out of existence.

There are now about 90, or perhaps it is 94, which are currently using the facilities of the intermediate credit banks.

When the great depression of the 1930's came on and farmers were again confronted with an acute credit situation it was found that these OFI's, these primary lenders—and, by the way, they include commercial banks which had a special department created as primary agricultural lending institutions, and which discounted with the credit banks—simply were not adequate to get the job done.

Congress found on investigation that only a very, very small percentage of American farmers had access to primary lenders which were using the facilities of the credit banks. And that is what brought into being the production-credit system in 1933.

As a matter of fact, the intermediate credit bank system, this bank of discount was primarily failing because such a very, very few farmers had access to it. It does not do any good to have a very fine discount bank unless you have primary lenders that are out there lending money to farmers and offering their paper for discount to the credit bank.

That was exactly the situation. So Congress in 1933 created a system, a system which made available to every farmer and rancher in the United States, who had a basis for credit, a channel through which he could get a loan which would be discounted with this Federal Intermediate Credit Bank. This was the production credit system.

This system of production credit associations, these local associations, have as their supervising agencies in each district, the production-credit corporations.

The major part of the credit business of the intermediate credit banks is done and has been done with these production-credit associations. For the past 2 years something like 87 or 88 percent of all of the business of the intermediate credit banks has been handling, discounting the paper and making loans to production-credit associations.

Most of the business handled by the credit banks for institutions other than the associations, is for these OFI's which for the most part are State chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

Each of the 12 Federal intermediate credit banks was provided initially with \$5 million of Government capital, and they still retain that \$5 million of Government capital. That was the best judgment of the Congress at the time, as to the amount of capital that would be needed in each district to support the loan volume that these banks would have.

History has proven, however, that the loan volume of the 12 district banks varies considerably, and that their needs for capital are not identical. This bill contains a provision under which the Farm Credit Administration would, at the effective date of this act, reallocate this \$60 million of basic Government capital among the 12 banks in proportion to the use which each of them has made of the credit banks—that is, in relation to the loan volume of each of these credit banks in the last 5 years.

I mentioned before that the credit banks primarily finance their loans by the sale of consolidated intermediate-credit bank debentures—that means debentures that are the responsibility of all 12 of the banks, to the investing public.

They also borrow some money for short periods of time from commercial banks. But during fiscal year 1955 these banks issued \$1,046,330,000 of debentures. And at the end of fiscal year 1955 they had outstanding almost \$800 million in debentures.

These debentures are not guaranteed either as to interest or principal by the Federal Government and never have been.

Now I would like to turn to the production-credit system in a little more detail. We have in each of the 12 districts, you will recall, a production-credit corporation which supervises the associations. There are 498 associations, and 440 of them now are completely farmer-owned. They have retired their Government capital.

The production-credit corporations had in the beginning a three-fold purpose, one to organize production-credit associations, two, to capitalize them, and, three, to supervise them.

The job of organizing was completed some years ago. The job of capitalizing them is largely completed. The important job remaining, and one which will be a continuing one, is that of supervision of production-credit associations.

There are some differences of opinion as to just how much supervision production-credit associations need after these 22 or 23 years of operation. Of course, our observation is that they need varying amounts. Some of them need comparatively little because they do a fine job without it; others need a substantial amount of supervision.

The associations may also from time to time need access to funds for the purpose of recapitalizing them. And for that reason this act provides for the continuance of a revolving fund, out of which the Governor may over the years subscribe to additional capital in production-credit associations that may have need for it.

Within the past 3 years there has been six production credit associations in two different parts of the country, that have paid off all of their Government capital but found it necessary to come back and ask for resubscription of some Government capital in order to bolster their financial condition.

Three of those are out in the chairman's territory, in the drought area, and the other three are in Congressman McIntire's district, due to a very bad potato-price situation a year ago.

We expect that over time it will be necessary to do just that thing in connection with other associations, but that, as they get on their feet and are able, they will repay that capital just as they have demonstrated a desire and ability to do in the past.

Mr. Briggs commented a bit about this matter of the Government capital retirement from PCA's and about the total amount of surplus and reserves which they have.

I would mention again that these PCA's, since 1934, have built up capital stock amounting to \$98 million and reserves and surpluses of \$97 million.

In addition to that, they have another \$10 million of valuation reserves, that is, reserves that are set up for specific losses, that are foreseeable.

I want to emphasize that out of this \$98 million of capital the users of the system have subscribed to their PCA, \$23 million is in "A" stock which they were not required to buy in support of their loans.

They subscribe to the "A" stock in order to speed up the retirement of Government capital and speed the day when they can say, "We own our product on credit association," and, of course, to give their association additional capital.

As of December 31, last, the production-credit corporations combined for the 12 districts had \$31,350,000 of Government capital remaining in them, and earned surpluses and reserves of about \$13½ million.

There are 479,000 farmers and ranchers in the United States who own stock in production-credit associations, and most of these currently are borrowers.

I believe, gentlemen, this is all I will try to do with regard to giving the background of this farm credit system, and these specific institutions that are affected by the legislation.

I will now get into a rather brief summary of the provisions of the bill itself.

Mr. POAGE. I think it might help the proceeding if the members who want to go into the background might question you about background only and not about the provisions of the bill. Then we will let you take up the provisions of the bill because I think if we will keep these things separated as to subject matter, we will proceed faster; otherwise we will cover it several times.

Are there any questions about the background and operations of the local PCA's?

Mr. GATHINGS. With regard to the reallocation of this \$60 million to the districts, I wonder just how that capitalization will be placed in these districts, just what rule or guide will be used.

Mr. POAGE. May I suggest now—I know he mentioned that but I did suggest that if we would withhold questions about the provisions of the bill, until he discusses the provisions of the bill as such, I think it would help.

He spent a good deal of time in discussing the background which has been very helpful, I am sure, but if we needed further information about the background, the history of the operations, the way the thing has been operated, it would be better.

Your question goes to the new bill. I think if we could separate our questions we would make more time.

Mr. GATHINGS. All right.

Mr. POAGE. Any questions about the present operation?

Mr. HAGEN. I am for the bill. I want to qualify my statement to that extent.

Very often we receive complaints from farmers, for example, that these production-credit associations are too conservative.

I was wondering in the statute establishing these production-credit associations, are there any rules which guarantee that they hold open some avenue to easier credit than the private financial lending institutions.

Mr. TOOTELL. Not precisely that. We have always emphasized to the production-credit associations and other agencies of the farm credit system that they are vested with a public interest and have a responsibility to go just as far as they can safely go in financing the credit needs of farmers.

On the other hand we can't depart from the fact that there are certain minimum standards for making sound loans that the cooperative credit system can't ignore and remain a system very long. We feel that below certain standards the only type of agency that could render that kind of credit service would have to be one that lends Government money and which the Congress specifies shall make high-risk loans.

Mr. HAGEN. Well, I mean, you do exert some pressure that they adopt a lending policy in the public interest, so to speak?

Mr. TOOTELL. Yes, we do.

Mr. HAGEN. One further question. Under this bill will you lose any of that authority that you have?

Mr. TOOTELL. No, not at all. This bill does not in any way diminish the amount of supervisory responsibility that the district farm credit board and the Farm Credit Administration has.

Mr. HAGEN. You will still exert some general direction over their policy?

Mr. TOOTELL. Yes. We feel that because they are federally chartered institutions and got their start through the free use of Government capital, they are permanently vested with a public interest, that the Farm Credit Administration as a public agency is required to preserve.

Mr. CHRISTOPHER. For the record, would you say that over the past 21 years the production-credit associations have done a good job or a poor job? What would be your answer to that?

Mr. TOOTELL. Well, I would say, speaking in the main, that they have done a good job.

Mr. CHRISTOPHER. Thank you, sir.

Mr. TOOTELL. I would go on and qualify that and say that you can prove any accusation that is made against production credit by what some association at some time or other has done.

Mr. CHRISTOPHER. That would be true of individuals, too, I think.

Mr. TOOTELL. I believe it would, sir.

Mr. MATTHEWS. Mr. Chairman, I want to tell the Governor how much I appreciate his bringing up this bill and giving us this explanation of it. I am sorry I have not been able to be here. I have a little campaign down in my district that is keeping me very busy.

As I understand, the people in our production-credit associations in Florida are generally pretty well pleased with this bill. It that not right?

Mr. TOOTELL. It is our understanding that all of them are.

Mr. MATTHEWS. As I recall, last year when we discussed similar legislation many of the production-credit associations in Florida especially in the 8th district that I represent, were a little bit concerned about the extra cost that might accrue to them in taking over the production-credit corporations. And I talked with them this past summer and they seemed to think that this legislation was generally acceptable. I just wanted to know if that was your opinion, also.

Mr. TOOTELL. Every association in your district has so indicated to us.

Mr. MATTHEWS. I want to thank you, sir, and I want to pay tribute to these production-credit associations in my district. I think they are doing a wonderful job. Generally, I believe our farmers are very pleased with the work they are doing.

Mr. TOOTELL. Thank you. We are glad to know that.

Mr. JOHNSON. Do these PCA's have the say as to what the interest rate will be, or do you people in Washington have that?

Mr. TOOTELL. The board of directors of each production-credit association recommends what the interest rate shall be. The actual approval of that presently rests with production credit corporation in the district. That means the board of directors and the offices of the district PCA.

At one time it was required that the approval had to be given or obtained also from the Farm Credit Administration, but that is one of the delegations to the district that we have accomplished.

Mr. JOHNSON. I wish I had brought along a paper I was given in the Easter recess. I was in my district and one of the farmers brought up a notice where his local association had written him a form letter telling him—I am quoting from memory, but I think it was raising the interest rate from 5½ to 6 percent.

Is that general throughout the country?

Mr. TOOTELL. Yes, sir; it is. That is simply because we have to hire the funds that we lend to farmers and the cost of money has gone up tremendously.

About 18 months ago our intermediate credit band debentures sold with a coupon-interest rate of 11½ percent. And yesterday we priced a big issue of credit bank debentures and we had to put 3½ percent coupons on those same 9 months' debentures.

Of course, the PCA's for the last year in which interests costs have been climbing have absorbed a good deal of that, but they are coming to a point now where they just can't absorb any more of it.

All of the increase in interest rate is going to have to be passed on pretty rapidly to the borrowing farmer.

Mr. JOHNSON. As a banker would you say that was a good or bad sign?

Mr. TOOTELL. Well, let me say this, it makes pretty tough going for the PCA's, because some of their competitors do not have to hire their loan funds. They are not faced with that same necessity, you see, of paying the market rate for the use of their money each month. This makes tough competition.

I think that the general situation in the economy which creates a demand, a great demand for money for capital expansion is a very healthy thing and farmers benefit from that, too.

But, of course, we would much prefer to see lower interest rates which we would pass on to the farmer. We would pass on the benefit of any lower interest rates to the farmer.

Mr. POAGE. Any further questions?

Mr. DIXON. I have a letter here from the Utah Livestock Production Credit Association. They are not opposed to the bill, but I would like to read what they have to say and maybe you could answer their misgivings.

Mr. POAGE. If you want to raise a question about the pending bill, you will remember I asked Mr. Gathings if he would hold his question about the bill, because the Governor has not discussed those provisions yet.

Mr. DIXON. This is on the rate. That is what the witness was talking about.

Mr. POAGE. Go right ahead.

Mr. DIXON (reading) :

We are fearful that with the present high discount rate of our money from it and the possibilities of other increases in the discount rate, that the proposed merger at the present time may increase the cost of our funds to a point that we could be increased out of the loan market and lose much of our effectiveness.

Will this merger increase the discount rate further?

Mr. TOOTELL. We believe that it will not, Mr. Dixon. I believe in my statement here that I will make a little further and in some data I will give in explanation that we can demonstrate that reasonably satisfactorily. I will try to do that because I think that is the most pertinent question of this whole business. It is a very important one.

Mr. CHRISTOPHER. Is it your honest opinion that this merger would result in lower interest rates to the farm borrowers or higher interest rates to the farm borrowers eventually?

Mr. TOOTELL. It is my belief that it would result in lower interest rates to farm borrowers over a period of years. Actually——

Mr. CHRISTOPHER. Over a period of how many years, Mr. Governor?

Mr. TOOTELL. As long as the system operates. And I would say that the lower interest rates would begin with the first year, but you see that is the sort of thing you can never prove. You do not keep your old system and have it for a benchmark and then have the actual operating cost of your new system and make that comparison.

But we feel sure that as a result of doing away with, well, let us say one of two sets of district officers, and of combining certain other functions, that the job can be done at a lesser cost, as well as being done with greater efficiency.

Just this last fall at the request of the Federal Farm Board we employed the firm of Arthur Anderson & Co., of Chicago, which is a very reputable auditing and accounting firm to make a study for us of possibilities of streamlining the functions of the production-credit corporations and the intermediate credit banks, assuming that they might be merged, and it was the belief of this very reputable firm that the district institutions would be able to effect a very substantial saving as a result of merger and streamlining operations.

Mr. POAGE. I believe we have about covered any questions relating to the present organization. And rather than going into further

questions about the future, I wonder if you might proceed to give us a discussion of the provisions of the bill now.

Mr. TOOTELL. Very well. I would like to call your particular attention to the policy statement which is section 2 of the bill, and which emphasizes the fact that service—a sound and dependable effective service to agriculture will continue to be the primary objective of the operation of this institution under the proposed legislation, and that it will be the intention of this legislation to encourage and promote the continued growth and development of the production-credit system, to make its facilities equally available to the office, and to other qualified lenders.

This bill would provide that the merged institutions continue to be known as the Federal intermediate credit bank in each district. And even after merger and even after the Government capital might be all retired at some future time that the facilities of this merged institution would continue to be made available to the OFI's as well as to the production-credit associations.

This question of how best to provide the future supervisory service, the necessary supervisory service to production-credit associations is one to which the Federal Board gave a tremendous amount of thought over the last 2 years and more.

A year ago when the Board was here with its proposal for a plan which would permit the production-credit associations to buy the production-credit corporations, the Board was of the opinion that that might be the best solution.

However, since going out to the country and working so closely with all of the production-credit associations and getting their more considered opinions on it, it is the belief of the Board that this remaining supervisory function and service function to production-credit associations can be satisfactorily done through the merged institution.

It is the belief of the Board that it will result in some overall savings, which will mean lower interest rates in the future to farmers, compared with what they would be if you continued the two separate institutions.

Then, in addition, you will have a simplification of the corporate structure and we believe improved credit services.

Well now, we get down to the matter of the stock in this merged institution. There would be two classes of stock in the merged institutions: "A" stock, which would be issued in denominations of \$100 par value and "B" stock in the denominations of \$5 par value.

On the effective date of the legislation, which would be January 1, 1957, the present Government capital in both of the institutions, would be represented by "A" stock.

The "B" stock would be the voting stock and the stock which the production-credit associations would acquire as they retire the Government capital and purchase ownership.

Within 60 days after the effective date of this act, each production-credit association would be required to subscribe to capital in the merged intermediate-credit bank. In the aggregate for the United States as a whole, this would amount to 15 percent of the Government capital of approximately \$86 million, or it would be about \$13 million that the 498 PCA's would subscribe.

Within 60 days they would make a downpayment of a third of that subscription. Then within a year they would pay in the second third,

and, before 2 years had expired, they would pay in the last third.

That would be a purchase of "B" stock, an outright purchase of "B" stock and would be the only outright purchase that the production-credit associations would make.

Let us see about how that will work for a PCA that has an average of about a million dollars in discounts with its district credit bank. It would mean that the association would subscribe to about \$20,000 of capital. It would pay a third of that within 60 days. That would be \$6,700 that it would have to pay out of its current assets. Then inside of a year it would buy another \$6,700 worth and then in the second year \$6,700 worth, for a total of \$20,000 for a production-credit association that did about a million dollars' worth of business with the bank.

Such an association would have a net worth of somewhere between \$275,000 and \$300,000. So it would be trading assets about this way: It would be subscribing about 7 percent of its net worth in this new institution, and it would not lose any assets. It would simply give up certain assets in the form of cash or Government bonds and substitute capital stock of this newly created credit bank for it.

Mr. McINTIRE. May I ask a question at that point?

Mr. POAGE. Certainly.

Mr. McINTIRE. Do I understand correctly that in this merged institution, it is the purpose to continue stock as an asset on the books of the PCA, and that it does not impair the total lending ability of that PCA in relation to its total assets?

Mr. TOOTELL. That is right, in this sense: That its net worth remains the same, just a substitution of assets; and that credit-bank stock can be used for figuring loan ratio purposes.

But there is this one important difference, and that is that the PCA could not pledge the credit-bank stock to the credit bank and borrow against it.

You see, it can pledge Government bonds which it might sell in order to buy stock. That is the fundamental difference. It gives up some earning power.

Mr. McINTIRE. It may give up some earning power, but if it can't pledge the stock of an FICB as collateral for its borrowing from the FICB, then, in the present situation, it can pledge these other investments as collateral. Why does not that limit the lending ratio of the PCA in relation to its total capital?

Mr. TOOTELL. I would like to ask Mr. Miles, who is Director of Short Term Credit Service, to take that one.

Mr. MILES. As you probably know, by law, a PCA cannot discount more than \$10 in loans at the bank for each \$1 of its net worth.

Net worth that would be represented by stock purchased in the bank would be included as part of its assets and could be used in figuring that limitation.

Mr. McINTIRE. Then you are modifying the existing situation slightly by that point?

Mr. MILLS. No, I think not; because that limitation is based upon the net worth of the association in relation to its loans and discounts at the bank.

Mr. McINTIRE. Well then——

Mr. MILES. And it does not specify as to just how those assets are invested.

Mr. McINTIRE. Then the point is that this lending ratio is in relation to its net worth and not in relation to a physical asset?

Mr. MILES. That is true.

Mr. McINTIRE. Thank you.

Mr. JOHNSON. You said that the Government capital would go into class "A" stock.

Mr. TOOTELL. Yes.

Mr. JOHNSON. You did not mention what was going to become of the surplus in there. Will that go to the Government or go to the PCA's that have been dealing with it?

Mr. TOOTELL. The surplus from both the corporation and the credit bank would become a permanent part of the capital structure of this new institution.

Mr. JOHNSON. Are these PCA's going to own a share of that surplus?

Mr. TOOTELL. Yes, sir.

Mr. JOHNSON. All the Government will get back will be their original capital, not any of the surplus?

Mr. TOOTELL. Unless the credit banks should be liquidated prior to the retirement of all of the Government capital, in which event the Government as an "A" stockholder would share pro rata along with the "B" stockholders in dividing up any surplus.

Mr. JOHNSON. You probably get into it further in your discussion. Eventually the "A" stock will be liquidated?

Mr. TOOTELL. That is true.

Well now, I have pointed out here this initial subscription to the capital stock of the credit banks amounting to 15 percent of the capital. From that point on all of the retirement of Government capital from the credit banks would be from the earnings of the credit banks, and each year after paying their operating costs, setting up necessary reserves, and paying franchise tax, the net earnings of an intermediate credit bank would be allocated to the users in the form of additional "B" stock to the production-credit associations and in the form of participation certificates to the OFI's.

Mr. POAGE. What can the OFI's do with those certificates?

Mr. TOOTELL. They can treasure them only until all of the Government capital is retired from the system, because this proposed law would provide that no dividends may be paid either on "B" stock or on patronage certificates until after all Government capital, the "A" stock, was retired.

So that it is a matter of their being an asset which would have value at sometime in the future but not currently.

Mr. POAGE. Could they sell those certificates to a PCA?

Mr. TOOTELL. Well, I had not thought of that. My guess is there would be PCA's and a good many of them which would have faith in the value of those over time. If they were properly discounted for the element of time, I would think that there would be PCA's that might be willing to invest in them.

Mr. POAGE. But there would be no prohibition against the sale of those?

Mr. TOOTELL. No; I think not at all. Would you think so?

Mr. BAGWELL. No; that is right. There is no provision in the bill, Mr. Poage, for the purchase of these by the PCA's.

Mr. POAGE. There is no prohibition against it.

Mr. BAGWELL. That is true. PCA generally have authority to invest their funds in such securities as may be approved by the Governor of the Farm Credit Administration but no provision is made specifically with reference to these participation certificates.

Mr. DIXON. Are these OFI's being divested of some rights there of ownership which they have?

Mr. TOOTELL. No, sir. I can say very emphatically they are not. Congressman Dixon, because they have no such rights at the present time and never have had any in the credit banks.

Mr. DIXON. They have helped to build up the service and credit structure of the organization.

Mr. TOOTELL. Yes; they have. They have helped to build up somewhere in the neighborhood—I think as near as we can tell—somewhere near 20 percent, perhaps, of the surplus and reserves.

While we are on that point, however, I think it must be obvious that it is essentially the big volume of business that the PCA's have given the credit banks, the fact that they account for 85-87 percent of the volume of business of the credit banks. It has been that volume which the PCA's have given the credit banks that permitted the credit banks to remain as economical institutions. I think the credit banks would have gone out of existence if they had had to depend on the OFI's for business.

And actually, you see, the PCA's through furnishing this big volume of business have held an umbrella over the OFI's since 1934 by supporting for the OFI's and making available to them a satisfactory place where they could discount their paper.

It is our feeling that on the basis of that alone, and the fact that the OFI's presently have no ownership interests at all in the surplus of the credit banks that they are not being in any way discriminated against by not being permitted, under our proposal, to have some ownership interest.

Mr. DIXON. Will their business in any way be impaired through the merger?

Mr. TOOTELL. Not in any sense. We feel that it is adequately guaranteed in the policy statement of the bill and in four or five other places in the act itself, and certainly, in our testimony here and in the legislative history. I am sure that you folks will see to it that the OFI's interests are safeguarded, and their opportunity continued to have fair access to the credit banks in the future.

Mr. McINTIRE. You just mentioned that the PCA could not use the "B" stock to collateralize their discounts.

Mr. TOOTELL. Yes, sir.

Mr. McINTIRE. I think the record should show whether or not the agricultural corporation, OFI, can use these certificates to collateralize.

Mr. TOOTELL. They definitely could not.

Mr. McINTIRE. They cannot?

Mr. TOOTELL. No. Although those certificates would constitute—I mean the credit banks would have a lien against those certificates in case the OFI failed.

Mr. McINTIRE. To the extent that any creditor would have a lien against the assets of an institution?

Mr. TOOTELL. That is right, but only to that extent.

Mr. McINTIRE. These certificates would be recognized in the net worth of the OFI at par?

Mr. TOOTELL. That is right.

In that respect they would not differ a bit from the "B" stock of the PCA.

Mr. McINTIRE. That is the point I wanted the record to be clear on.

Mr. TOOTELL. Just the same.

Mr. McINTIRE. Thank you.

Mr. TOOTELL. In this matter of the subsequent retirement of Government capital after this initial subscription on the part of PCA, we think that is probably the strongest feature of this and probably if it were not for the great flexibility that is involved in this feature, the great majority of production-credit associations in this country at this time would not want to undertake the purchase of credit banks.

But you see the way this would operate now, the PCA's would not be saddled with a fixed, rigid schedule of payments which they would have to make annually or quarterly in retirement of Government capital. After the initial subscription, they would retire Government capital from the intermediate credit banks only as the credit banks had net earnings and the credit banks would have net earnings only to the extent that the interest rate charged by the credit bank was pushed up high enough above the cost of doing business to make a net return. It would definitely be the policy to not undertake to operate and earn a net return at times when the cost of money was very high, as it is at the present, or when the income situation in agriculture was unsatisfactory as it is at the present.

And it would only be in times when the farmers and the production credit associations were in better position to pay that the credit banks would be operated for profit. At such times Government capital would be retired.

We feel that is a very strong feature of this bill. And it is a very important consideration in view of the present income situation in agriculture.

Mr. DIXON. Would you state whether or not all of the PCA's have funds available without injury for the initial payment?

Mr. TOOTELL. It is our belief, Congressman Dixon, that they do have. We have not canvassed each and every association on that.

You see, this total 15-percent subscription would involve about 7 percent of the net worth of the typical association, and that would be subscribed and paid in over a 2-year period.

We feel that if there are a few associations over the next 2 years or so, whose net worth position were such that they could not pay this, we would be justified in putting some additional Government capital in the form of "A" stock in the association.

Mr. JOHNSON. Is there any provision in case of an emergency getting the Government's money back?

Mr. TOOTELL. Very definitely so, in both the intermediate credit bank and the PCA. There is that provision in the present law. It would not be changed very much.

I will comment a little later on a slight change in the revolving fund that would be available for that purpose, but the general principle is there.

Mr. HAGEN. Would you state what possible sources of earnings exist to these intermediate banks? Do they just make money out of the money they loan to the PCA or do they invest funds elsewhere?

Mr. TOOTELL. That is a very good question. Primarily it is, of course, out of the money they loan through the discounting of paper of the PCA's, and the OFI's. They also make some loans directly to farmers' cooperative associations. Although only a very small amount of their business is done that way.

Then they do not have, of course, as income interest on the investments that they have made with the Government capital which is in the system.

You see, under this program here we would be changing the capital structure of the intermediate credit banks in this way: Presently they have a net worth of about \$110 million, the 12 intermediate credit banks. By combining most of the assets of the production-credit corporations with them, we would come up with 12 institutions that had a combined net worth of \$149 million, considerably strengthening the net worth of the intermediate-credit banks at a time when we think they may look forward to a bigger job than they probably have ever had before.

Mr. POAGE. You mean what banks—the new ones?

Mr. TOOTELL. The new credit bank which is the merged bank would have the \$149 million net worth as against the present \$110 million net worth.

Mr. CHRISTOPHER. Mr. Governor, in view of your statement a few minutes ago that it was costing the Farm Credit Administration about 300 percent more to obtain money in the public money market at the present time, than it did a few years ago, and in view of the present depressed condition of agriculture in the United States, would you tell this committee what the great hurry is to increase the responsibility of the production-credit associations by this merger? Would this be a good time? Is this a good time for agriculture or is it a bad time, considering the money market and the present condition of the American farmer?

Mr. TOOTELL. Well, certainly, there have been much more favorable times and I think I might say it is not a particularly good time, but we are confronted with this situation:

For something more than 2 years now the employees both of the intermediate credit banks and the production-credit corporations in each of the 12 districts have been faced with a knowledge that something was going to be done in the way of reorganization.

They have had the jitters. Some of the very good employees, particularly of production-credit corporations, have gone to other jobs, not many of them, but it has been difficult if not impossible for the production-credit corporations to step out and hire good competent people to replace those who were retiring in the last couple of years, simply because of the uncertainty as to what the future is with the production-credit corporations in particular.

We have a morale situation there and a personnel situation that is bad. It reduces the efficiency of these two at a time when we feel we ought to be giving the best possible service to American agriculture.

And I am sure it is the feeling of most—well, the great majority—of the production-credit association people, the great majority of

boards of directors in the 12 districts, as well as our Farm Credit Board, that it is important to get this thing settled and be on our way.

Mr. CHRISTOPHER. On your way where? You said, "be on our way," to where?

Mr. TOOTELL. On our way, sir—on our way to a consolidated institution which has only one set of officers instead of two, which will operate more efficiently and more economically.

Mr. CHRISTOPHER. You just said that you thought that you had done a good job over the last 21 years, however.

Mr. TOOTELL. Yes, sir. And I continue to say that, but if all institutions in this country of ours which have done good work were satisfied to rest on their laurels we would not have much progress.

Mr. CHRISTOPHER. Is not this tremendous increase in interest cost, is not that the feature that is working against our production-credit associations and our borrowers? The production-credit rates are equal to bank rates in most places in the United States right now. If anything happens to increase them we will be driven to the banks for credit and our production-credit associations will cease to exist. What little saving we could make by merger will be infinitesimal. You could not find it with a microscope in comparison to what these increased interest rates are doing for our associations.

Mr. TOOTELL. Well, we certainly will have to agree that the increased interest rates growing out of the increased cost of money loom very, very large in comparison with any saving that might be done through consolidation, sir.

Mr. POAGE. Would you say that the consideration of this legislation, because it has not become legislation yet, certainly the legislation proposed here had nothing in the world to do with the increased interest rates which have already occurred?

Mr. TOOTELL. That is exactly right. And if anyone has any question in his mind about that, all he has to do is to study the statistics in the money market.

Our intermediate credit bank debentures continue to sell at essentially the same position relative to Government securities, as they have down through the years when there was not even any talk about merger.

We have talked with the people who buy our securities and said, "What effect would that have if the credit banks and corporations were to be merged—what effect would that have upon the sale of our securities?"

They say, "Good Heavens, you are talking about making \$149 million institution out of one that is presently \$110 million. We look essentially at the balance sheet and the earning statement."

The mere fact of consolidation would not make a whit of difference.

Mr. POAGE. Is it not true that this change in the interest rate, which I deplore just as much as anybody else—I think it is a bad thing for the country. There are differences of opinion about that; but this change in the interest rates, is not confined to the Farm Credit Administration. It has gone all the way through our whole economy.

Just this morning I read the financial analysis of the First National Bank of Dallas that pointed out that the money available for loans had been greatly reduced in the Southwestern area.

It pointed out that the banks were cashing their Government securities in order to provide funds to make their ordinary loans, and that in turn that many of their corporate depositors had now found that the Government securities were now attractive to them, and they were turning around and buying these securities and reducing the deposits in the banks, and in that way aggravating the very situation that confronts us.

It seems to me that what we have is that we have all of the seeds, and maybe we have more than the seeds. I think I can see the green coming up through the ground, of a good first-class depression or panic, call it whatever you want to, because when I look out there across to those fields they look to me just exactly like they did in the spring of 1929. They have such a striking resemblance. I see exactly the same kind of growth out there on those fields all over the United States.

Now, maybe it won't happen this fall. I hope it won't. But we have seen that kind of harvest.

Mr. CHRISTOPHER. That was the object of my questioning. I wanted that brought out and in the record.

Mr. POAGE. I do not think he is to blame for it.

Mr. HILL. You do not think the wish is father to the thought.

Mr. POAGE. I lost more money in 1929 than I have ever made any year since. I do not wish to go through it again.

Mr. HILL. That is what I figured.

Mr. TOOTELL. I would just like to add this point, that last year the production-credit associations of this country, in spite of this increase in money costs, did a greater volume of business than in any other year of their history of operation.

Back again to the matter of operating as near as possible at the break-even point in times of low agricultural income. The best guess on this—and it really isn't a guess, it is a matter of using our own operating records—indicates to us that on the average the 12 credit banks of this country with a capital structure as would be provided through this merger would be able to operate with only a one-tenth of 1 percent interest rate in order to break even.

I am sure I need to clarify that statement.

The income from their capital which would be invested largely in Government securities would come within one-tenth of 1 percent of being sufficient to pay the total operating costs. That would be for the typical intermediate credit bank in the United States. And it would be the intention to operate just as near that break-even cost as possible in times like these or even approaching this.

Over the past 10 years the margin that the intermediate credit banks have charged has averaged 37/100ths of 1 percent. The break-even point on an average would be one-tenth above debenture cost. We would think that over a period of 20 or 30 years, which would be probably the time that it would take for the great majority of the credit banks to retire all of their Government capital, that the spread would have to be in the neighborhood of one-half of 1 percent. Just slightly more than it has been on an average for the last 10 years, when the credit banks were not retiring Government capital, you see.

After all class A stock in the credit banks would be retired, non-cumulative dividends not to exceed 5 percent would be authorized by the act.

In the event of liquidation or dissolution of a production credit association or an OFI, the bank could at any time also retire at book value but not exceeding par or face amount, the class B stock and participation certificates which such association or institution owns.

I would like to go into just a little the matter of application of earnings.

Mr. POAGE. What is the reason for that? As I understand it by that you mean that if an institution goes broke, instead of having to sell this stock on the market, that you take it at par.

Mr. TOOTELL. That is, it would be discretionary. A district board or I mean the board and officers of an intermediate credit bank if they saw fit to, would have the authority here to retire in cash the participation certificates of an OFI.

Certainly, that would not be done if it were a very large amount or if it would impair the financial standing of the credit bank. We hope that there would not be any occasion for that. But it could be done.

Mr. POAGE. It seems to me that it puts considerable pressure on the board when the board meets that kind of situation. They will have a good deal of sub rosa argument in favor of it.

Mr. TOOTELL. There could be a lot of argument over what the discount would be on any such settlement.

Mr. POAGE. I thought you said it would be paid at par.

Mr. TOOTELL. Not exceeding par or face amount, sir.

Mr. POAGE. I see.

Mr. TOOTELL. Well, now, I would like to go into this matter of application of earnings in just a bit of detail. I realize we have to move on here.

Section 103 of the bill contains amendments which would provide a new method of application of net earnings of the bank. After providing for valuation reserves and for any losses in excess of such reserves, the net earnings of each bank would be applied, first, to the restoration of any impairment, in the capital stock and participation certificates; second, to restoring any impairment in the surplus account of the banks; third, 25 percent of the remaining net earnings would be used to create and maintain a reserve account equal to 25 percent of the outstanding stock and participation certificates of the bank; fourth, if any class A stock is outstanding during any part of that year, then the credit bank would pay a franchise tax of 25 percent on the remaining net earnings.

That is the same provision that this committee recommended and it was enacted in connection with the co-op bank legislation a year ago.

As long as there is any class A stock outstanding, patronage refunds would be paid in B stock to the production credit associations, and participation certificates to the OFI's.

After it is retired, of course, then those participation benefits could be paid either in stock and certificates or in cash, as the board might choose.

The present surplus that would be retained in the credit bank and that to be transferred from the corporation in each district would be frozen. It would be not available to pay dividends, but would be set up here as a part of the permanent capital structure in each credit bank.

We feel that is amply safeguarded.

Mr. Briggs mentioned the matter of a letter we had from the Bureau of the Budget which took exceptions to three features of this bill. I want at this time to tie one of them in with my testimony with respect to distribution of assets of a credit bank on liquidation.

This bill would provide that, after payment of debts, class A stock would first be retired at par and then class B stock, and participation certificates would be retired at par or face amount.

Mr. HAGEN. You keep talking about liquidation but it is not contemplated that these banks would, however, be liquidated, is it?

Mr. TOOTELL. We feel that it is an academic question, but on the other hand, we believe it is very important and particularly when Government capital is involved, as it is at the present time, to define the matter of ownership interest on down the road.

And even after Government capital is retired——

Mr. HAGEN. There is no implication in the bill that it leads towards liquidation?

Mr. TOOTELL. No, we feel that it definitely would strengthen the credit banks and certainly make much, much less likely their liquidation. I think I would like to get in the record at this point the fact that no intermediate credit bank could go broke unless and until the great majority of the production credit associations and OFI's which borrow from it go broke. They are the primary lenders, and they have to lose their assets really before an intermediate credit bank is in position to take a loss.

So we think that the possibility of the intermediate credit bank going broke is very remote. But on the other hand, we are required by the Bureau of the Budget and we want ourselves, of course, to have it clearly understood as to the ownership interest in these institutions after the Government capital is retired.

It was the recommendation of the Federal Farm Credit Board that after all of the Government capital is retired the Federal Government have no residual interest in this surplus but at this point I should point out here the objection of the Bureau of the Budget.

They say this, that there would be no justification for distributing this surplus to the stockholders at time of liquidation, that when a bank is dissolved and the surplus is no longer required for the purpose for which it was intended, it should be returned to the Treasury, as is now provided by law in the case of the Federal intermediate credit banks, which, of course, always have been wholly Government-owned institutions.

While we think this is an academic point, it ceases to be solely that from the standpoint of recognizing a continuing Government interest. If these institutions, after the production credit associations purchase them, if the Government were to continue to have an interest by virtue of this surplus, our production credit associations think it would be very undesirable. It might give a justification to the Government for interfering in management, and making other requirements that would be objectionable to the purchasers of the system.

That matter was threshed out pretty well sometime ago in connection with the banks for co-ops. We were required to make a similar recommendation regarding the banks for co-ops legislation a year ago, and both Houses of Congress had the feeling that the recommendation of the Federal Farm Credit Board was what it wanted to approve.

Mr. JOHNSON. You are giving the PCA the same deal that the banks for co-ops received?

Mr. TOOTELL. That is right; and that the land banks had before them and that the production credit associations have in the retirement of their own Government stock, you see. There has never been any question raised about the latter.

Mr. MCINTIRE. Would it not also be fair to say that the present surpluses of the FICB's are substantially sums accumulated out of the earnings that have been obtained on interest money paid by the participating PCA's and OFI's and that substantially these surpluses are accumulations of interest paid by the farmer users of the system?

Mr. TOOTELL. We believe that, Congressman McIntire. We do not subscribe to the view which some advance that these surpluses are due solely to the fact credit banks have had the free use of Government capital. The credit banks for years have charged a higher margin, above their debenture cost, than was necessary to pay their operating costs in order to build permanent capital in the form of surpluses. They have consciously done that and prided themselves in increasing their own financial strength.

The alternative to that would be to have called for additional subscriptions of Government capital to take care of that. I think your point is very well taken.

This is as good a stopping point as any, from my standpoint.

Mr. POAGE. We are far from through with this discussion.

Mr. TOOTELL. I would try to finish my statement here in half an hour whenever you desire.

Mr. POAGE. The committee will stand in recess until 2:30 o'clock.

(Whereupon, at 12:00 o'clock noon, the committee recessed to reconvene at 2:30 o'clock p. m., this day.)

AFTERNOON SESSION

Mr. POAGE. The subcommittee will please come to order.

We will proceed with Governor Tootell explaining the provisions of the pending legislation.

STATEMENT OF R. B. TOOTELL—Resumed

Mr. TOOTELL. Mr. Chairman, the next item I would like to call to the attention of your committee is an amendment which would permit the credit banks in the future to discount paper submitted to them for terms up to 7 years.

Since the beginning of the credit banks they have been authorized to discount paper for terms up to 3 years. Particularly, with the increased capital requirements in agriculture and the great expenditures which farmers have for such things as heavy equipment, the conversion in dairy areas to bulk milk tanks, soil conservation programs, farm building programs, et cetera, a good many farmers have need for a type of credit that truly is intermediate in terms—it is longer than 1 year, but shorter than ordinarily is extended on real estate security.

And we feel that there is a definite place for that.

I might call attention to the fact that Congressman McIntire of this subcommittee some weeks ago introduced a bill which would do

just this thing. It is a very short bill, and its sole purpose would be to increase the possible term of credit bank loans up to 7 years. I think I need say no more about that.

And other features of this bill would make it possible for a complete system of inter-bank borrowings between the farm credit units, the land banks, the intermediate credit banks and the co-op banks.

There are times, for period of from 1 week to perhaps 30 days, where one farm credit institution is in need of funds, and another farm credit institution, either in the same district or in another district, has a surplus of funds.

And by making it possible for them to borrow from each other for a short period of time, the efficiency of their operations can be increased because they use idle funds and the institution that is borrowing ordinarily can borrow from a fellow member of the system at a little more economical rate than they would have to pay in the market.

Mr. POAGE. That is one of the problems there that disturbed me somewhat.

I readily see the advantage of the inter-system borrowing but at the same time, as I understand it, we have one board sitting here that represents each of the segments. That board goes out and if per chance any two of the group were to work together, even without the consent of a third group in the board, they might borrow that third member blue in the face, could they not?

Mr. TOOTELL. Well, we think it unlikely.

Mr. POAGE. Yes; I think so.

Mr. TOOTELL. But I am sure it could not happen because they are required to get the approval of the Farm Credit Administration for any such inter-bank borrowing.

As a matter of fact, our finance officer actually does the arranging; he locates the bank that has the surplus of funds and locates the bank that wants to do the borrowing, and arranges to get them together.

And we, as well as the district institutions, have to approve the transaction.

Mr. POAGE. You mean that the local bank making the loan has to approve it or does the district board have to approve the local board?

Mr. TOOTELL. Not the district board. They have delegated that function to the officers of the district bank.

Mr. POAGE. What I am getting at is this: Suppose the land bank and the bank of cooperatives wanted to borrow from PCA—put it that way—from the intermediate credit bank, and the local intermediate bank did not want to make them the loan. They would have to make them the loan under this.

Mr. TOOTELL. They would not have to. It is a matter of a negotiated proposition. Just last week the co-op banks borrowed \$7 from the land banks, out of money that the land banks got from the recent bond sale. And that was done in a very businesslike way. The rate was negotiated. The term, which was a 30-day term, was negotiated, and the co-op banks issued a special form of debenture which was drawn up and executed in our office, and had to be approved both by the Governor and the Deputy Governor, in order to make it legal.

So we think we have the gap plugged up on that very completely.

Mr. POAGE. Please understand, I think it is a highly desirable arrangement. I think we need to have that kind of arrangement.

All I am trying to get at is to make sure that protection there is for the institution from which the funds are taken, and in this case it was the land bank. I recognize the land bank is probably in the strongest position of any of them, is it not? And probably you will never be able to take it from the land bank when it is objectionable, but theoretically, the other agencies would have a majority on the board and the board makes the decision.

What I am trying to get at is, would the land bank officials, regardless of any board, have a right to turn down that loan?

Mr. TOOTELL. They would, indeed.

Mr. POAGE. That is what I wanted to know.

Mr. TOOTELL. Yes, sir, they would. And we think the fact that it would have to be approved by our office as well as probably negotiated by our office, means that there are ample safeguards on it.

Mr. POAGE. I think there are safeguards, but I just wanted to make it clear that the institution that is putting up the money has to consent to it.

Mr. TOOTELL. Yes.

The next point I would like to refer to is that of revolving funds. We just touched on it at one point this morning in our testimony.

The original revolving fund set up for the production credit system was \$120 million in 1933.

In 1949 that was reduced by law to \$90 million, and \$30 million of that was returned to the general funds or miscellaneous receipts of the Treasury.

This bill would reduce that revolving fund still further to \$60 million, which would be available in the future to capitalize production credit associations.

That matter has been discussed at some length with the district boards and the production credit corporation officials in the districts, and a year ago it was agreed that \$60 million should be sufficient.

Mr. POAGE. Is that achieved by the provision on page 16?

Mr. TOOTELL. I will ask John Bagwell to answer that question, Mr. Chairman.

Mr. BAGWELL. Page 16, that is right, Mr. Chairman.

Mr. POAGE. Section 105?

Mr. BAGWELL. That is right.

Mr. TOOTELL. Now, as so the revolving fund for the intermediate credit bank, there has been a revolving fund of \$40 million available to add to the capital structure of the credit banks since 1934, and from time to time some of that has been subscribed in the form of paid-in surplus to credit banks that needed it to support its loan volume.

Presently about two and one-half million dollars of that \$40 million is out in three of the banks.

The proposal of the board is that there be added to this present \$40 million revolving fund all of the \$60 million of Government capital as it is retired.

In other words, the revolving fund for the credit banks would be built up to a total of \$100 million out of capital that already is in the system.

As the \$60 million of capital is retired, that money instead of going into the general funds of the Treasury, would be added to the revolving fund.

Mr. JOHNSON. What is the advantage of taking the 60 from one and putting it into the other?

I say, what is the advantage?

Mr. TOOTELL. One of them is a revolving fund for the production-credit associations, which is a distinct thing.

And the other, a revolving fund for the credit banks. They are two separate things.

Mr. POAGE. You reduce the revolving fund?

Mr. TOOTELL. For the associations.

Mr. JOHNSON. And increase it for the bank?

Mr. POAGE. For the banks.

Mr. TOOTELL. And increase it for the credit banks?

Mr. JOHNSON. The production-credit associations will have the advantage of it because they work through the banks.

Mr. TOOTELL. That is right. It is definitely to the advantage of the production-credit associations, as well as the OFI's that the credit banks at all times be amply capitalized.

Of course, you understand about these revolving funds that the money in them is not sterilized and tied up, but rather there is simply a credit there, I mean a memorandum item in the books of the Treasury Department. However, it is a contingent liability that the Treasury has to make good on if called upon to put these funds back in.

Mr. JOHNSON. And if it isn't necessary, there would be no \$100 million in there except when necessary?

Mr. TOOTELL. That is right.

You see, at the present time out of the \$40 million of authorized revolving fund, there is only \$2.5 million subscribed.

This is another of the points at which the Bureau of the Budget disagreed with the recommendation of the Federal Board.

You see, the sum total of these two revolving funds presently, 90 for production credit, 40 for intermediate, makes \$130 million.

The Board's proposal was that the sum total of the two be \$160 million. And the Bureau of the Budget expressed its opinion that the present \$130 million total should be sufficient, and said it did not care how that was allocated as between the two.

The Bureau even made one suggestion that is not in its letter, that possibly the two funds could be combined, so that there would be greater flexibility.

Frankly, we had not explored that, and subsequent to their suggestion on it we have the possibility of combining the two. But their recommendation is that the ceiling for those be the present \$130 million rather than \$160 million recommended by the Board.

Mr. JOHNSON. I cannot see how you get your \$130 million. You had \$40 million and you have \$120 million. You get \$160 million.

Mr. TOOTELL. That is the Board's recommendation.

Mr. JOHNSON. According to the bill by changing \$120 million, in subsection (a) thereof to \$60 million and by changing \$40 million in subsection (e) thereof, to \$100 million—

Mr. TOOTELL. There isn't in fact, \$120 million in the production credit revolving fund at the present time and has not been for a good many years. It has actually been only \$90 million. And this is really

to correct in the law a situation which was brought about, a reduction in that revolving fund, I think, by administrative action.

Mr. BAGWELL. By an appropriation act.

Mr. TOOTELL. By an appropriation act some years ago.

Mr. BAGWELL. In the basic law, the \$120 million figure was not changed.

Mr. TOOTELL. This is the first time that an effort has been made to change that basic law from \$120 million.

There are a number of miscellaneous provisions. One that is very significant from our standpoint, has to do with the relationship of the merged credit banks to the Corporation Control Act or the jurisdiction of the Corporation Control Act.

Presently, the land banks and the co-op banks, by virtue of having some user capital in them, are classified as "Mixed ownership corporations" and specifically do not come under the budget provisions of the Corporation Control Act.

The land banks, because they have no Government capital remaining in them, are not even subject to audit under the audit provisions of the Corporation Control Act.

The banks for cooperatives when they complete the retirement of the Government capital will also be exempted from the audit provisions of the Corporation Control Act.

The board recommended identical treatment for the intermediate credit banks, feeling that as soon as the production credit associations under this law would subscribe to capital in the credit banks, the credit banks would become mixed ownership institutions in fact, and would immediately become exempt from the budget provisions of the Corporation Control Act.

This brings up the third point at which the Bureau of the Budget made an exception. Its point No. 2 was that the intermediate credit banks should remain under the budget provisions as well as the audit provisions of the Corporation Control Act, until the last dollar of Government capital is out; not when the first dollar of user capital is subscribed.

And we feel that is a rather fundamental difference between the two.

Mr. McINTIRE. On that point, that is a shift somewhat of the position in the interpretation of the jurisdiction of the Corporation Control Act as it applied previously to the other corporations; is it not?

Mr. TOOTELL. We felt that it was. And we felt that it would not be desirable, our board felt that way about it. And particularly for this reason. Even in the Farm Credit Administration, in our expense for the Washington office, we do not get an appropriation for tax money. The cost of maintaining the Washington office is borne by assessments which are levied against the district institutions.

We do go to the Bureau of the Budget each year to get an approval to request of Congress the authority to spend the money which we get from the district institutions through assessments on them.

So long as the credit banks and the corporations were wholly Government owned, we felt, of course, that it was entirely proper that we go through that routine in order to get approval of the budgets for these district institutions, even though those funds came out of their operating income.

But it is the belief of the Board that as soon as the intermediate credit banks become mixed ownership institutions, in other words, as soon as the PCA's make their initial payment, that the budget provisions should no longer apply.

Mr. POAGE. And as soon as the payments are all made, the Government stock is all retired, the audit provisions should not apply.

Mr. TOOTELL. That is the feeling of our board. And as a matter of fact, the Bureau of the Budget raised no objection to that.

I have mentioned this matter of the expenditures in the Washington office. And earlier this morning I talked about our desire to operate the system as economically as possible.

Since the Farm Credit Administration, our Washington office, and folks who are on the Washington payroll become an independent agency in December 1953, we have reduced the personnel of the Farm Credit Administration by 25 percent—from a total of 322 payroll strength as of early December 1953, to 245 presently. That was not just a matter of reducing the number of clerks and stenographers and so forth. We eliminated two deputy governor positions, and we have cut out other higher salaried people. We think that is a rather typical cross section.

We believe we have done it without any impairment at all in the efficiency of our operation.

Again we employed the Arthur Anderson people a year ago last winter to make a study of our examination organization and procedure, and we have reduced the size of our examination force by a third, and its expense by essentially that same amount.

The district institutions believe, and we believe that we are getting a better examination job done, one that results in more readily usable information for management, than we had under the old system.

I cite those things because they have quite a bearing on this matter of economical operation.

We have been able to absorb all of the mandatory pay increases, the longevity pay increases, the increased per diem expenses and all of those, and at the same time reduced our requests for appropriations for the authorization for the Washington office by \$90,000.

Mr. POAGE. What has happened in the field?

Mr. TOOTELL. The field has just about held even on its personnel.

There has been a slight increase the last 2 years in the intermediate credit banks because of greater volume of business, but it has been just a very few.

This Arthur Anderson report that was made for us just this past winter indicates possibilities for rather substantial saving that would come about with the streamlining that would be possible with this merger. Much of it would be in the discount operations of the intermediate credit banks, as a matter of fact.

We believe these further savings that will be made will make it possible for us to extend every bit as good service or better service, and do it at actually a lesser cost than at the present time with our present organization.

Mr. McINTIRE. On that matter which you just referred to there in the reduction in the overhead and personnel, that is exclusive of the cooperative service division which remained in the department?

Mr. TOOTELL. That is right. The cooperative service division stayed in the department.

Mr. McINTIRE. And this change as to the number of personnel which existed prior thereof as an independent agency did not involve a change in relation of the department service division—I mean this change in personnel is subsequent to the establishment of that?

Mr. TOOTELL. Yes, it is. That is right. And as of the effective day when the personnel was transferred—well, the coop service people were transferred out—

Mr. McINTIRE. Yes.

Mr. TOOTELL. That was the personnel strength on the effective day.

Mr. Chairman, I should like next to close with some comments about the status of OFI's or the other financing institutions, and their relationship to this system.

There are at the present time about 90 OFI's that are discounting with or borrowing with the intermediate credit banks.

During the fiscal year ended last June they contributed about 9 percent of the total volume of business of the 12 banks.

I might say that the percentage of business that they contributed varies materially between districts, from $1\frac{1}{2}$ percent in the Columbia district to about 25 percent in the Berkely district.

Mr. POAGE. What do you mean; $1\frac{1}{2}$ percent of what?

Mr. TOOTELL. Of the total volume of business done by the credit bank.

Mr. POAGE. Of all of the business done in the United States?

Mr. TOOTELL. Done in these respective banks. One and one-half percent done in the Columbia district; 25 percent in the Berkely district. But 9 percent average for all 12. And in your Houston district it runs a little better than 20 percent usually, Congressman Poage. That is the second largest from the standpoint of OFI business.

Some of the OFI's have expressed objections to us—they did at our hearings last summer—to some of these proposals.

Our board has gone to great lengths to take into account the interests of the OFI's.

Mr. P. O. Wilson, who speaks for a rather large number of them, has met with our Federal Farm Credit Board on at least two occasions and discussed our mutual interests. And the Board has given a good deal of consideration to his recommendations.

One of the principal objections of the OFI's to the proposed legislation is that they would not be permitted to acquire ownership in the credit banks the same as would the PCA's.

Now I want to point out that the Federal farm credit system is made up of cooperative institutions, supervised by the Farm Credit Administration. They are, for the most part, farmer owned. And the policy of the Farm Credit Act of 1953 is to encourage and facilitate farmer ownership and control of all institutions in the system.

The OFI's with which the credit banks are authorized to deal, consist of a wide variety of types of organizations. They include State and national banks, agricultural credit corporations, organized by banking interests and operated as affiliates or companion lending agencies, agricultural and livestock credit corporations set up as subsidiaries or affiliates of farmers cooperative associations, and credit corporations organized by small groups of local investors to engage in the lending business. Credit unions are also permitted by law to discount.

Mr. POAGE. Do any of them do it now?

Mr. TOOTELL. Not at the present time.

There are two, I am told.

Thus, the OFI's represent widely different interests. They are organized under statutes of various jurisdiction. They do not serve common purposes or objectives, and are not under a common supervisory authority. The majority of them are organized and operate for profit, and are not farmer owned.

In contrast to OFI's, the production credit associations are local cooperative farmer-owned organizations, which exist for the single purpose of making sound loans at cost to their members.

They are organized and operate under a single Federal statute, with similar policies and objectives.

They are subject to a consistent pattern of supervision and examination through the Farm Credit Administration.

They elect two members of the seven-man board of directors in each district and participate in the nomination of persons for consideration by the president in selecting members of the Federal Farm Credit Board.

And these associations furnish the great bulk of the business of the credit bank.

It is wholly consistent with the concept of the Federal farm credit system as a coordinated group of cooperative institutions to be owned by farmers and ranchers, that the purchase of the credit banks should be accomplished by the production credit associations, acting together to that end.

The fear has been expressed that once the credit banks are completely owned by the production credit associations, that their facilities would not be equally accessible to the OFI's. There are two reasons why we believe this cannot happen.

First, it is the declared policy of this act to make the facilities of the credit banks equally accessible to the OFI's.

And secondly, under the bill the banks would continue to be controlled by the several district farm credit boards, and also operate under the general supervision of the Farm Credit Administration.

And as a matter of fact, we could not discharge our duty as a farm credit administration if we did not see that the law was enforced and the OFI's were given equal access.

I would like to summarize our views with regard to this bill and the OFI's on these points.

One, the OFI's are guaranteed the right to utilize the credit facilities of the Federal intermediate credit banks upon the same terms and at the same rates of interest as the production credit associations.

Two, the banks would be authorized to make direct loans to OFI's on the security of any collateral approved by the Governor or as may now be done, by the production credit associations.

The present law does not specifically authorize direct loans to OFI's except on the security of notes eligible for discount by the banks.

In other words, this is a change made to improve the accessibility and service of the credit banks to OFI's as such.

Mr. POAGE. To accept the general credit of the OFI than to accept a specific pledge, is that it?

Mr. TOOTELL. That is correct, sir. Rather than just to accept agricultural paper.

Three, the production credit associations are restricted to borrowing from and rediscounting with the credit banks, whereas the OFI's are free to obtain funds from any source.

And not infrequently do, from other sources.

Mr. JOHNSON. Can they give you one type of paper and give a better type of paper to somebody else, or do you have some say-so about it?

Mr. TOOTELL. We have no say as to that. We have control only over the paper which they offer us.

Mr. POAGE. But you do not have to take it?

Mr. TOOTELL. We do not have to take it.

Mr. MCINTIRE. Might I say as to that point, does the FICB have to take the paper offered by the PCA?

Mr. TOOTELL. It seems to me that I have heard at times that they have refused to accept PCA paper. [Laughter.]

Mr. POAGE. To go a little further on that, you have pointed out that the PCA's cannot borrow from anybody else.

Mr. TOOTELL. Right.

Mr. POAGE. Why do we limit the PCA's to this source of credit as being exclusive? Why do we make it exclusive? Is it simply to prevent them from becoming general credit institutions?

Mr. TOOTELL. I would think there are two reasons that come to mind and then I will ask Mr. Miles if he has any to add.

One, of course, is to avoid this matter of split lines of credit which might develop into a very unsound proposition. And the other is the production credit system was set up as a complement to the intermediate credit bank system and to provide the channels through which the credit bank, as a secondary bank of discount, would reach the farmers. If for a temporary period of time when the PCA's might be able to borrow equally advantageously outside of the credit banks or even more advantageously, they did that, and pulled out from under the credit bank, you might not have a strong credit bank at a time when you needed it.

Do you have any other points?

Mr. MILES. I think that covers it. I might add this, that even though OFI's have the opportunity to go elsewhere for credit, split lines of credit are not looked upon favorably by any credit institution.

Mr. POAGE. My bank does not look upon that practice favorably, either.

Mr. TOOTELL. Point No. 4 the OFI's would share in the future earnings of the credit bank on the same basis as the production credit association. That is, on the basis of the patronage that they contribute.

If a dividend is paid on class B stock held by production credit association, under this law a like dividend would have to be paid on the participation certificates, the participation certificates that are in the possession of the OFI's.

And point five, participation certificates held by the OFI's would be entitled to the same rights as those applicable to class B stock held by PCA's with respect to the retirement of such holdings.

Although liquidation or dissolution of the credit bank is not intended or foreseeable, the OFI's would in such eventuality, share in the surplus and reserves of the banks accumulated after the effective date of the bill on the same basis as the production credit associations.

As both Mr. Briggs and I have previously indicated, the board has

given a tremendous amount of thought to this legislation. It has been participated in by a very high percentage of the officials of production credit associations, directors of production credit associations over the country. We are impressed with, might I say, the impossibility of ever getting 498 production credit associations scattered all over the United States to agree unanimously on any single point. I believe that is an accurate statement.

We know that a very substantial majority of the PCA's in this country are favorable to this legislation.

The Board feels that it would enable our farm credit system to better serve and more efficiently serve the farmers and ranchers of this country. And we will appreciate favorable consideration that your committee may give to it.

MR. POAGE. Mr. Tootell, Mr. Gathings has a question.

MR. GATHINGS. I would like to ask you with regard to the allocation of this \$60 million. As it stands now, there is a \$5 million capitalization in the 12 banks, and under the terms of this legislation that money would be reallocated, but it would be on a different scale than the present \$5 million, and I would just like to know what basis and what criteria you would use in reallocating the funds to the 12 districts; what rule and guide would be followed by you in doing this?

MR. TOOTELL. Well, each of the district credit banks would have the sum total of its reserves and surplus—credit bank reserves and surplus of the Production Credit Corporation that is involved in the merger plus the capital of the Production Credit Corporation.

Now, each of the 12 would have that.

Then the \$60 million of credit bank capital, the original credit bank capital that up to now is allocated on the basis of \$5 million to each would be reallocated in a manner that would give a total capital to each of the 12 that would support at the same ratio the volume of business which it is contemplated each of those 12 would have in the next few years.

Let me see if I can make that clear—

MR. GATHINGS. How do you arrive at that?

MR. TOOTELL. It is largely on the basis of the volume of business, the peak volume of business which each of them has had during the last 5 years. And so far as I know, we have made no adjustments from that. It has been a matter of the peak volume of each credit bank for the last 5 years. We take that and determine what percentage that is of the total peak volumes of all 12, and then we prorate, get a pro rata share, you see, of \$60 million. The district pro rata share.

What it actually would figure out would be to give the credit banks the capital to support at approximately a 6-to-1 ratio their anticipated volume of business.

However, the proposed law is not specific on that matter of ratio. It simply says that the capital would be allocated in a manner to be determined by the Farm Credit Administration in an equitable manner.

MR. GATHINGS. Do you have any data at hand now to give the committee an estimate of just what that would mean to the 12 districts?

MR. TOOTELL. Mr. Miles could do that, yes.

I would like to ask, Mr. Chairman, that Mr. Miles answer that and comment further on it.

MR. MILES. You understand, gentlemen, that these allocations may change between now and the end of this year, before the bill becomes

effective, because of the business that will be done by the respective banks during the remainder of the period.

These estimates were made to illustrate to the associations the manner in which the capital might be reallocated in order to give them an idea as to what they could expect in the matter of capital structure. So they are estimates, and they are not final figures.

In District No. 1, Springfield, it is estimated that the peak indebtedness that we could normally expect over the next several years would be \$45,785,000. They have actually had a \$45 million peak. They would have a total net worth of their merged bank of \$7,600,000, in round numbers. They would have remaining out of their present \$5 million capital, \$650,000.

In the Baltimore District, it is estimated that they would have a peak indebtedness of \$48 million; they have actually had a \$47,305,000 peak within the past 5 years. They would have a total net worth of \$7,960,000. They would have of their \$5,000,000 capital now, \$1,385,000.

In the Columbia District, it is estimated that they might reasonably expect to have a peak indebtedness of \$85,800,000; they have actually reached a peak for the past 5 years of \$84,500,000. They would have an allocation out of the \$60 million of \$7,550,000.

In the Louisville bank, it is estimated they would have a peak of around \$99 million. Actually, as of now, since these figures were compiled, they have hit a peak of \$100 million. So they are right up to that peak at the present time. They would have a total net worth of their bank of \$16,400,000, in round numbers. And they would have out of the \$60 million, \$7,750,000.

In New Orleans, it is estimated they might have a peak of \$83,580,000; they have actually hit a \$82 million peak. They would have a net worth of \$13,852,000, and would have out of the \$60 million, \$7,685,000.

St. Louis, it is estimated, would have a peak of \$92,195,000, and unless they have hit a new peak in the last few months—they have had a peak of approximately \$91 million—they would have a total set worth of \$15,280,000, and out of the \$60 million would have \$7,835,000.

St. Paul, it is estimated, would have a peak of \$56,870,000. They have actually hit a peak of \$56 million. They would have a net worth in that merged bank of \$9,425,000. They would have \$665,000 of the \$60 million.

Omaha, it is estimated, would have a probable peak of \$61,600,000; they have actually hit a \$160,600,000 peak; they would have a net worth of \$10,213,000, and would have \$1,890,000 of the \$60 million.

The Wichita estimated peak is \$63,400,000. They have actually hit a peak of \$62,440,000. They would have a net worth of \$10,508,000. They would have \$3,245,000 of the \$60 million.

Houston has an estimated peak of \$103 million; they have actually hit a peak of \$101-plus-million; they would have a net worth of \$17 million, and they would have \$8,355,000 of the \$60 million.

Berkeley has an estimated peak of \$86,800,000; they have actually hit a peak of better than \$85 million; they would have a total net worth of \$14,386,000; they would have \$7,785,000 of the \$60 million.

Spokane has an estimated peak of \$74 million in round numbers;

they are actually hitting \$72,800,000 now; they would have a net worth of \$12,250,000, and would have \$5,200,000 of the \$60 million.

These figures, as estimated, are based upon preliminary estimates that were worked up for illustrative purposes in our discussion in the respective districts.

Mr. McINTIRE. Mr. Chairman, may I ask a question?

Mr. POAGE. Yes, sir.

Mr. McINTIRE. Along that basis, then, the ratio of capital to total loans vary somewhat from district to district?

Mr. MILES. No. On that basis, the net worth figure of the merged bank in relation to its estimated peak would be on a 1-to-6 ratio for all the banks; this would set them all up on a 1-to-6 ratio, as based on their estimated peak volume of business.

Mr. McINTIRE. The amount of that \$60 million which you put in to supplement the existing capital structure on the basis of the peak loans which you mentioned, did that not follow a 1-to-6 ratio there, did it?

Mr. MILES. Take Springfield, for example, with an estimated peak of \$45,785,000, they would have a capital structure of \$7,600,000, approximately. So I believe if you multiply that out, that is pretty close to 6-to-1.

Mr. McINTIRE. I thought in some of the other your existing capital was already about 1-to-6, and you were still putting your \$3 million in it.

Mr. MILES. No; these all figure out so that their ratio of estimated capital structure to total indebtedness would be on a 1-to-6 ratio; they are all put on a 1-to-6 ratio basis.

Mr. TOOTELL. I would like to make this further statement, Mr. Chairman, with regard to this. It is evident, I believe, to the committee that we have given a good deal of thought to this, and we feel that to date this is as near an equitable approach as we have found, but the board has instructed us to continue to study this matter, and see if we can find a more equitable basis for reallocation, and if so, we would, of course, expect to adopt that.

I would just point out that the loss of capital on the part of about half the districts that would be losing it appears to be a bit serious to them. But on the other hand, they have had the benefit of being overcapitalized, and have had the earnings from considerably more capital than they advantageously used for a number of years.

If we did not allocate it on the basis of uniform ratios, it would seem to us that we would be penalizing the districts that had gone out and actively built up their volume of business and made the most effective use of their capital.

Now we realize that they don't all have the same potential at all. Of course, the consolation to the districts that lose so much capital is that they have comparatively little Government capital to retire. That would be true of Mr. McIntire's and Mr. Johnson's districts. They would have a relatively small amount of Government capital to retire, and would be out of the woods on this thing in a relatively short period of time.

Mr. POAGE. Mr. Christopher wanted to ask some questions.

Mr. CHRISTOPHER. Governor, on page 3 of the bill, beginning with line 24, the bill says:

Officers and employees, notwithstanding any other provision of the law, the employment of officers and employees of each Intermediate Credit Bank and each Production Credit Corporation is terminated on the effective date of this Act. The Board of Directors of the Federal Intermediate Credit Bank shall, not later than 60 days prior to the effective date of this act, take all necessary action to reemploy as of such effective date—

And so forth.

Can you tell this committee approximately how many employees would be suspended at that time?

Mr. TOOTELL. Mr. Chairman, the number that would be suspended, of course, would be the total number of employees of the 12 corporations and the 12 credit banks. Now, that will average about 12 or 14 employees of each corporation, Mr. Miles, and about 20 for each credit bank?

Mr. MILES. That is right.

Mr. TOOTELL. Just about that. And, of course, under the provisions of this, they would all be suspended, that is, to untie the hands of the District Farm Credit Board.

Certainly, the great majority would be reemployed.

Mr. CHRISTOPHER. There is nothing in the legislation, however, to even direct that you reemploy any of these people; that would be entirely up to the board whether you employed any of them or not?

Mr. TOOTELL. Well, the legislation itself says that the board shall reemploy any and all who are needed and who are considered qualified. And it certainly would—

Mr. GATHINGS. The words "the board determines" down here in lines 7 and 8, so that is the board that determines these things?

Mr. TOOTELL. That is right.

These employees are presently employed as the boards have determined, and only as the boards have determined.

Mr. GATHINGS. I know, but when you lose your livelihood all at once by virtue of one stroke of the pen, your job is wiped out, and then your fate is left in the hands of the board, as the board determines how you fit in the scheme of things.

Mr. POAGE. We created this board, and I think we have got a pretty representative board. I haven't seen them playing any politics. I think we have done a fair job. They selected these individuals that are involved right, it wasn't somebody else, they are not holdovers from the Democratic administration, these individuals were employed by this present board, every one of them.

Now, if this board is trying to get rid of anybody, it is trying to get rid of its own employees and not some past administration employees. Every man and woman that works for the Intermediate Credit Bank, the PEC's know, have known for the last year, that legislation was pending that involves their jobs. And the quicker it is passed and the thing is stabilized, I think the quicker you are going to get some kind of stabilization in the employment.

If you don't do it, I don't think you are ever going to do it. And I don't think you ought to leave this thing hanging as it is hanging now, you will never get people who have the security of tenure that is needed if they are going to do a good job. I think we are seeing ghosts.

Mr. CHRISTOPHER. I want to thank the chairman. The things I have lived through for the past 30 years have made me just a little suspicious. And the fact that I come from Missouri also indicates that I have to be shown. I am glad to be shown, but I have got to have it done, I am not satisfied until it is done.

Mr. POAGE. We are glad to get everything cleared up.

Mr. McIntire?

Mr. McINTIRE. Could I ask the Governor one question?

Mr. GATHINGS. I don't think it is cleared up yet.

Mr. McINTIRE. Governor, in connection with the termination of employment and the reemployment of any of these people, will it be possible administratively to protect all of the retirement benefits which those who are reemployed may have accumulated in a separate corporation, their tenure of service and their retirement benefits, under whatever system of retirement they may have: can that be protected?

Mr. TOOTELL. Yes. It is provided here that even though they are terminated, that if they are reemployed their employment will be construed as being continuous and will be protected.

And I might say this that we don't believe there is one of the 12 district boards in the country that will have anything other than a completely human attitude toward this problem. We are sure that there will be quite a number of situations where individuals, who have been with either one or the other of these district institutions for a number of years and are close to retirement, will be continued for a year or two even though the Board would know that they could get along without them.

We know situations where district boards already have said that is what they would do. And actually, the total number involved will be few. And it is mostly going to occur through attrition, not filling positions that become vacant.

Now, we wouldn't say that would be the total; there will be a few people who will not be reemployed. But, they are going to know a long time in advance on this thing and they are going to be assisted in getting employment. We feel that is not going to be a serious problem for any of the employees.

And, by the way, this is a pretty good time for people to be looking for employment, a much better time than when there are a great many unemployed.

Mr. McINTYRE. Might I ask also at this point, Governor, that within the present employment of these two corporations, say at the district level, from that group of people will be drawn in very large measure those reemployed in the new merged corporation?

Mr. TOOTELL. I would be willing to bet that there won't be 5 new people in all 12 districts brought in from outside. There may be a situation in two or three districts where the Board may feel that there isn't—in either of those institutions at the present time—a person who they feel could satisfactorily head up the new institution.

What they probably will do is to reach over into the land bank or the cooperative bank in that same district and pick out someone who is a tried and true employee. But there will be very little of that. And practically everyone who is reemployed—and practically everyone I mean, who is in the new organization—is going to be a person who presently is employed.

Mr. GATHINGS. Governor, I am sure that we all feel that you are doing a splendid job as Governor, and I know that you have a good Board. I am proud of it. And I feel that proper discretion will be used in this authority, no doubt.

You can clearly see the uncertainty and unrest that would exist if we would write a piece of legislation saying that you were out of a job and the other 12 members on the Board were thrown out, and you may be reappointed and you may not—you can see the consternation that would exist in the minds of the people that are involved.

Mr. TOOTELL. It would be only natural for the employees of both of these institutions in each district to be apprehensive, and I think it is rather remarkable that a very high percentage of them do favor this legislation in spite of that fact. There are only a few of the employees of either the Production Credit Corporation or the Intermediate Credit Bank who have gone out and opposed this legislation.

Mr. GATHINGS. You can clearly see, Governor, that it would be to the advantage of a lot of these folks to ride along on the white horse, don't you think?

Mr. TOOTELL. Well, if they had assurance that they were going to be on the white horse. But I don't know where they would get that assurance.

Mr. JOHNSON. One more question I would like to ask. I am new on the committee.

How, originally, were these individuals appointed? Was it by civil-service examination, or did they come up from the ranks?

Mr. TOOTELL. You are talking about the employees of the production credit corporations and the intermediate credit banks?

Mr. JOHNSON. Yes.

Mr. TOOTELL. The people in neither institution are under civil service, except as to the Civil Service Retirement Acts. They were employed by the board of directors of the respective districts.

Mr. JOHNSON. How many years ago?

Mr. TOOTELL. Oh, many of them go back to the beginning of the corporations, and some of them even to the beginning of the credit banks. There were a few who were originally employees of the credit banks in 1923.

Mr. POAGE. Well, now, Governor, isn't it correct that every one of these were employed by your new board?

Mr. TOOTELL. No, sir.

Mr. POAGE. They were not?

Mr. TOOTELL. No, sir.

Mr. POAGE. They were not?

Mr. TOOTELL. No, sir.

Our new board in the Farm Credit Administration here exercises jurisdiction over the approval of appointment only of the senior officers of the district farm credit institutions. We have delegated to the respective districts, the boards and the officers in those districts, the matter of approval of the employment, and even the compensation of their officers below the senior officer level.

Is that not right, Mr. Bagwell?

Mr. BAGWELL. Mr. Chairman, I wonder if the committee understands that the board we are talking about here is not the Federal Board in Washington; it is the farm credit board of the district—New

Orleans, Houston, St. Paul. It is the district farm credit board which would do the hiring.

Mr. JOHNSON. They will do the rehiring, too?

Mr. BAGWELL. That is correct; it is not the Federal Board in Washington.

Mr. TOOTELL. That is right.

You see, practically, there are very, very few people employed in either of these institutions in any district who were employed since the Federal Farm Credit Board came into existence. They are practically all people who have been employees for many years at these institutions. There are a few new ones, as a result of some of the older people having retired, but only as a result of that.

Mr. POAGE. If there are no further questions, we are very much obliged to you, Governor. And we will turn to our list of witnesses.

We want to thank you for your statement. I want to say, as chairman of this subcommittee, that I think that the Farm Credit Administration has done an excellent job and on this particular item, that you have cooperated with the Congress in an admirable manner; and we appreciate the thoroughness with which you have gone into this thing and the democracy with which you have handled it because we believe if we could have this kind of background for all of our legislation, we might have less votes in the future.

We are very much obliged to you.

Mr. JOHNSON. I would like to compliment the gentleman. I have been impressed by the way he knows his subject. He did not have to ask any of his assistants here to come to his aid but showed he was well informed on all phases of the operation. It made quite an impression on me.

Mr. MCINTIRE. I would like to join in the commendation of the presentation to this committee.

Mr. TOOTELL. Thank you very much, gentlemen.

If there are any other questions that either of my associates or I could answer we would be very glad to try to do so.

Mr. POAGE. If some of you will stay with us, we probably will ask some questions as we go along. I know that we have a number of witnesses from out of the city here, some of them are trying to get home late tonight, and we are not going to stay in session very long this afternoon.

And I am going to start down this list in the order in which the clerk has given it to me and ask who is trying to get out of town tonight.

The first name I have is Glen Harris.

Mr. HARRIS. I will be here tomorrow. The other members of my committee will have to leave tonight, some of them. Personally, I will be here tomorrow.

Mr. POAGE. We are trying to get to those who have to leave.

Mr. W. F. Woodruff.

Mr. WOODRUFF. I want to leave tonight.

Mr. POAGE. We will hear you as the next witness, but let me check the rest of these names.

Mr. Wilmer Smith.

Mr. SMITH. I want to leave.

Mr. POAGE. Mr. J. D. Chambers.

Mr. CHAMBERS. I would like to leave, too.

Mr. POAGE. Mr. James Crouch.
Mr. CROUCH. The same.
Mr. POAGE. You want to leave.
Mr. King Banks.
Mr. BANKS. I will be here tomorrow.
Mr. POAGE. Thank you.
Mr. Jack Lacy.
Mr. LACY. I will be here tomorrow.
Mr. POAGE. Mr. Larson.
Mr. LARSON. I will be here tomorrow. I would like to appear early in the morning, if possible.
Mr. POAGE. We will try to see that you have that opportunity.
Mr. C. D. Miller.
Mr. MILLER. I will be here tomorrow.
Mr. POAGE. Mr. R. O. Justice.
Mr. JUSTICE. I will be here tomorrow, Mr. Chairman.
Mr. POAGE. Thank you, sir.
Mr. George Hays.
Mr. HAYS. We can be here tomorrow.
Mr. POAGE. Thank you.
Mr. B. L. Hauenstein.
Mr. HAUSTENSTEIN. I will be here tomorrow.
Mr. POAGE. We will start right now and go as far as we can, with Mr. Woodruff.
Right now we will call Mr. Woodruff.
We are delighted to have you, Mr. Woodruff.

STATEMENT OF W. F. WOODRUFF, OF NASHVILLE, N. C., THIRD DISTRICT, PCA ADVISORY COMMITTEEMAN

Mr. WOODRUFF. I am W. F. Woodruff of Nashville, N. C., third district PCA advisory committeeman. I represent the States of North Carolina, South Carolina, Georgia, and Florida.

In our district we have 87 associations loaning approximately 120 million dollars per year. Our loans cover cotton, tobacco, peanuts, corn, citrus fruits, vegetables, cattle, hogs, dairy, poultry, grain, and many other forms of agriculture, including one commercial holly grower who grows about 200 acres of commercial holly.

My district approves H. R. 10285, 100 percent. Last year my district favored section 201 which was deleted from the Farm Credit Act of 1955 by majority vote, about 75 percent of our district.

We in the third district think that the deletion of section 201 from the Farm Credit Act of 1955 was a long step toward the advancement of production-credit associations. H. R. 10285 follows the mandate of Congress to take steps to retire Government capital. It has flexibility to take care of bad times and weak operations. It increases user control over the source of money to conduct their operations.

This bill has the support of about 90 percent of the 498 production-credit associations in the country. The PCA members of my district will appreciate all the help you gentlemen can give us in securing passage of H. R. 10285.

Mr. POAGE. Mr. Woodruff, we are very much obliged to you. I would like to ask you to make one change in your statement and call

this the Cooley bill instead of referring to it as H. R. 10285. The chairman of our committee is your fellow townsman.

Mr. WOODRUFF. We will be very glad to do so.

Mr. POAGE. We are very proud of him and very proud to have you here from Nashville, N. C.

Mr. WOODRUFF. We will be very glad to accept either you bill, Mr. McIntire's, Mr. Hope's, or Mr. Cooley's.

Mr. POAGE. We appreciate that.

We are delighted to have you here.

Are there any questions? If not, thank you again.

Now, Mr. Wilmer Smith.

STATEMENT OF WILMER SMITH, CHAIRMAN, NATIONAL ADVISORY COMMITTEE TO THE BANKS FOR COOPERATIVES, WILSON, TEX.

Mr. SMITH. Mr. Chairman and members of the committee, I have a short statement to make. I will speak from notes, rather than from a prepared statement.

Mr. POAGE. That is all right.

Mr. SMITH. I am a farmer from Newsome, in west Texas. I am chairman of the plains cooperative oil meal board and chairman of the national advisory committee of the stockholders of cooperative banks to the Federal Farm Credit Board.

But this afternoon I am going to talk as a farmer, not as a member of that organization.

There are three things that have been pointed out in this bill that might be of interest to cooperative people and for that reason I appear on this hearing.

The first one is that the cooperatives by this bill would be prohibited from discounting paper or loans that they might make to farmers with the intermediate credit banks, and thereby creating a duplication of loans with the production credit.

The second part that might be of interest to cooperatives is section 104 of the bill which would authorize the Federal intermediate credit banks to make loans to cooperatives "upon terms and rates of interest approved by the Farm Credit Administration," that very thing that Governor Tootell was talking about a few moments ago.

And the third thing that might be of interest to cooperative people is section 201(c) of the bill that would amend the National Bank Act to remove the present limitation on the national banks investing in debentures issued by the bank for cooperatives.

A national bank is now prohibited from investing in such securities in an amount exceeding 10 percent of its paid in capital and unimpaired surpluses. This limitation is not applicable to bonds issued by the Federal land bank or debentures issued by the Federal intermediate banks.

And the proposed amendment would place all such farm credit securities on the same basis, insofar as their purchase by national banks are concerned.

I, as a member of a regional cooperative in west Texas, would favor those things in the bill. I favor the bill in its entirety, as a farmer, because of its flexibility.

We were talking this morning about the rise of interest rates. At this time of price squeeze the purchase could be consummated without

any additional cost to us, as was indicated by the testimony, even though interest rates might go up even higher than they are now. The merger would not in itself cause this increase in interest rate, and yet the flexibility of the bill would let in the years to come payments to be made when earnings were made by the bank.

And for that reason I would favor it in a time when I am in my own operation caught in a price squeeze.

But I think that we in the cooperative group of farm credit are most interested in the bill because we have two-thirds of the farm credit program in good shape. And we of the cooperatives feel that the Farm Credit Act of 1955 is working beautifully, even far more successfully than it was anticipated at the time we were testifying here last year. I understand that the purchase of the Government ownership in the bank is moving along very nicely.

Now, we would like to see the same yardstick applied to production credit, a source of credit that I know very little about except as a borrower. I am a member of all three branches of farm credit and I would like very much to see all of it in the same shape, that is, farmer-owned and farmer-controlled with a minimum of Government control and supervision.

However, I realize that any lending agency must have a certain amount of Government supervision.

That is my statement.

Mr. POAGE. Thank you very much. Any questions?

If not, I just hope that you go home and find so much standing water that you cannot get from the airport to town.

Mr. SMITH. I understand that it is raining out there this afternoon. [Laughter.]

Mr. POAGE. Mr. Chambers.

STATEMENT OF J. B. CHAMBERS, JR., HARLINGEN, TEX., AND JAMES CROUCH, BURLESON, TEX.

Mr. CHAMBERS. Mr. Crouch and I are here both representing the district PCA committee of the 10th district.

Mr. POAGE. We are glad to have you both.

Mr. CHAMBERS. You have both names listed there.

Mr. POAGE. Yes; I have.

Mr. CHAMBERS. We are together on this.

Thank you.

Mr. Chairman and gentlemen of the committee, I am J. B. Chambers, Jr., of Harlingen, Tex., owner and operator of nurseries, citrus and avocado groves, and a fernery. I have been a member of the Valley Production Credit Association since 1940, on the board of directors of this association for 9 years, vice chairman of the 10th farm credit district PCA committee for 3 years, and alternate to the national PCA committee for 3 years.

Mr. James Crouch, of Burleson, Tex., has been a member of the Stephenville Production Credit Association since 1945, on the board of directors of this association since 1945, on the board of directors of this association since 1949, now vice president of this board, a member and secretary of the 10th farm credit district PCA committee.

Mr. Crouch operates a dairy and general farm near Burleson, Tex., and his father was one of the early users of production credit, being one of those whom the system saved during the depression.

The 10th district PCA committee has met many times during the past year to represent the associations in our district, and in more recent months to consider proposed farm credit legislation.

At a meeting on March 3 of this year, the committee as a whole selected Mr. D. T. Northcutt, chairman, Mr. Crouch and myself to represent the PCA's of the 10th district at this hearing. Mr. Northcutt was not able to attend at this time.

It is a pleasure to appear before you and express the desires of the 36 production credit associations in 10th farm credit district concerning H. R. 10285, and identical bills which would combine the production credit corporations and Federal intermediate credit banks into one organization, and to provide a means by which this institution could become wholly farmer owned.

The associations of the 10th district have had a desire for several years to own these two organizations and have not changed our views in this matter.

Our district was divided in opinions regarding section 201 of H. R. 5168, a part of the bill which became the Farm Credit Act of 1955 to the extent that further unity within the district appeared doubtful. We are now convinced that deletion of section 201 of that bill was justified to the extent that we have been able to iron out most of our differences and become more unified in our line of thinking.

In August of 1955, the Federal Farm Credit Board held a hearing in Houston, Tex., which was attended by representatives of all 36 associations, and most OFI's of the district. The purpose of this hearing was to give every association and OFI's an opportunity to express their views, and these views to be used by the Federal Board, along with the opinions of all other districts in the development of legislation more nearly representing the desires of the farmers using short-term credit.

In November of 1955 the Federal Board held a similar meeting in Houston, at which time a proposed bill was presented that resulted from the earlier hearings. We realized that this new bill could not be exactly as each individual wished and that it would of necessity represent majority thinking.

After detailed explanation of the proposed bill and lengthy discussions, we realized that the Federal Board had done a masterful piece of work that we concluded was fair to everyone concerned.

At the conclusion of this hearing every PCA in this district went on record supporting the proposed bill and desired that the 10th district be represented as 100 percent in favor of it. Minor changes in the bill since that time have made no difference in this position as expressed at our recent meeting of the district committee.

The OFI's of the 10th district have consistently opposed the wishes of the PCA's on legislative matters pertaining to the FICB's and PCC's.

Recommendations made by the OFI's were of such nature that we could conclude only that they actually did not want any change made in the present setup, and wanted to eliminate all supervision that has been vital to past development of the PCA system.

Last year they opposed that part of section 201 of the Farm Credit Act of 1955 that pertained only to the PCA's. Now they are opposing the purchase of the FICB's by the users of that institution.

We believe that the proposed Farm Credit Act of 1956 deals more than justly with the OFI's and other discounting with the FICB's because they are not required to make any form of initial payment, yet have full access to use of the bank on the same terms as PCA's, and will participate in any dividends the same as if they were stockholders. We fail to find any part of this bill that could be construed as detrimental to any user of the bank.

The 10th farm credit district PCA committee unanimously requests and urges prompt passage of H. R. 10285, or an identical bill, in order to relieve the unsettled conditions in our district and in others.

Mr. POAGE. We thank you very much, Mr. Chambers.

Are there any questions?

Mr. Crouch.

Mr. CROUCH. I concur in his statement; yes, sir.

Mr. JOHNSON. Was not your group opposing it very strongly last year? I know we received a lot of letters from down in Texas.

Mr. CROUCH. There was some opposition to the bill down in Texas.

Mr. POAGE. Just north of the district I represent. I know you are familiar with the thinking in central as well as south and west Texas. Have you had a chance to talk with Mr. Smith and Mr. Walker recently?

Mr. CROUCH. Yes, sir.

Mr. POAGE. I understand they are satisfied.

Mr. CROUCH. They are very happy with this bill. There were some changes that they had in mind, but I am sure they have brought that to your attention, sir.

Mr. POAGE. Any further questions? If not, we are very much obliged to both of you gentlemen for appearing before us. Always glad to have you.

Mr. CHAMBERS. Thank you.

Mr. CROUCH. Thank you.

Mr. POAGE. I think under these circumstances we will start with the rest of the list.

Next is Mr. Harris. I will ask Mr. Harris and then go down the list in regular order, because I believe everyone else said they could be here tomorrow.

STATEMENT OF GLEN R. HARRIS, RICHVALE, CALIF.

Mr. HARRIS. Mr. Chairman and members of the committee, my name is Glen R. Harris and I am a resident of Richvale, Calif. I am a member of the National Advisory Committee of Production Credit Associations representing the eleventh farm credit district, and am currently serving as chairman of that committee. The full membership of the committee, one member being selected by the production credit associations of each farm credit district, is as follows:

- District 1—William Wadsworth, Farmington, Conn.
- District 2—H. G. Blalock, Baskerville, Va.
- District 3—W. F. Woodruff, Nashville, N. C.
- District 4—W. E. Lacy, Hopkinsville, Ky.
- District 5—P. F. Williams, Clarksdale, Miss.
- District 6—R. H. Lanterman, Chatham, Ill.

District 7—Walter H. Dunn, Ellendale, Minn.

District 8—William Yungclas, Webster City, Iowa.

District 9—King L. Banks, Delta, Colo.

District 10—Grover C. Impson, Beeville, Tex.

District 11—Glen R. Harris, Richvale, Calif.

District 12—Jack Arnold, Birney, Mont.

I would like the privilege to introduce them.

Mr. POAGE. You may have that privilege.

Mr. HARRIS. I will call them all except Mr. Blalock, who is not here at present.

District No. 1, Mr. Wadsworth.

District No. 2 is Mr. Blalock, who was called away unavoidably today, and will be back here tomorrow.

Mr. Woodruff has already spoken to the committee for District No. 3.

District No. 4, Mr. Lacy of Kentucky.

District 5, Mr. Williams of Mississippi.

District 6, Mr. Lanterman of Illinois.

District 7, Mr. Dunn of Minnesota.

District No. 8, Mr. Yungclas of Iowa, the secretary of the committee. I should have said Mr. Lacy is the vice chairman.

District 9, Mr. Banks of Colorado.

District 10, Mr. Impson of Texas.

Myself from District 11.

And District 12, Mr. Jack Arnold from Montana.

Mr. POAGE. Glad to have everyone of you with us.

Mr. HARRIS. The committee met in Washington, D. C., on April 18, with all members present and voted unanimous support of H. R. 10285 and the other identical bills introduced in the House and Senate. We prefer the provisions of these bills over the slightly different version contained in S. 3549 because of the greater administrative control left with the district farm credit boards, which we believe is very desirable.

We are opposed to S. 3550—which is the version proposed by the Budget Bureau in the Senate—to the extent that it differs from the other bills in treatment of the reserves, revolving funds, and continued Government control over the new combined corporations. We would prefer no legislation be enacted rather than have these provisions—proposed by the Budget Bureau—become law.

This committee is particularly pleased with the features of H. R. 10285 providing for user ownership and control by making the combined banks cooperative institutions, with provision for participation by the users, and with the flexibility provided in accomplishing the retirement of Government capital as agricultural conditions and progress of our production credit associations permit.

The committee last year supported the Farm Credit Act of 1955, including section 201, which was deleted by the Congress. I might say that was only by majority vote of the committee.

However, at that time we recognized that section 201 was not a complete answer and now recognize the wisdom of the Congress in not adopting section 201, but rather waiting until a complete plan including both the production credit corporations and the intermediate credit banks could be developed.

We believe H. R. 10285 does provide such a plan and that under its terms, complete farmer ownership can be attained without any significant increase in costs to production credit associations or other

financing institutions. And I think I should interpolate here that we are talking about extra costs that would be the result of this legislation and do not refer to what might happen to costs of money otherwise—through the opportunities it provides for economies resulting from consolidation and streamlining the organization, the flexibility provided in accomplishing retirement of the Government capital, and through the possibility of making better use of the capital now in the system.

We are gratified that the Congress last year enacted the balance of the act of 1955 which provided the plan by which our sister institutions in Farm Credit, the banks for cooperatives, can accomplish user ownership, and also the provisions improving the position of the land bank part of the system.

We wish to particularly endorse the provision of the act of 1955 prohibiting secretary-treasurers of national farm loan associations from simultaneously serving as members of district Farm Credit boards. It has not been possible for secretary-treasurers of our production credit associations to do so and we do not believe it is good administration or should be permitted in either case.

We understand that there is some opposition from various of the other financing institutions (OFI's) to H. R. 10285. We therefore wish to comment that we believe that H. R. 10285 provides fair and equitable treatment of OFI's. It provides that they shall continue to have the services of the credit banks available on the same terms and conditions as they will be available to production credit associations, that OFI's will participate up to the same extent as production credit associations in any equities built up or distributed, according to their volume of business, and they are not being required to make the initial payments which are required of production credit associations.

We wish to make clear that no production credit association desires to deny the OFI's the services of the credit banks, but that on the other hand, it is in our interest that we encourage their use of these facilities, thereby building greater volume of business and greater efficiency of operation.

Of the 498 production credit associations which this committee represents, only 50 to 60 associations have expressed any opposition to this bill. In 6 of the 12 Farm Credit districts there has been no opposition voiced. In the other six districts there is scattered opposition. Some of those opposing simply request delay because they feel they are not now ready to make the initial payment. Others have various other objections, such as desiring a different name for the combined bank or a greater voice in management.

A number of those opposing, however, say if there is to be any change from their present status, they believe that the provisions of H. R. 10285 provide an acceptable plan. We, therefore, report that the great majority of the production credit associations are in favor of H. R. 10285 and urge your committee to approve the bill and the Congress to enact it into law, that we may move forward toward the object of a completely cooperative and user-owned credit system for agriculture.

Mr. POAGE. You have raised a question there that I had in mind ever since last year and I am sure you know of it. I wondered just why we decided to go on with the name "Intermediate Credit Bank"

rather than "Production Credit Bank," which always seemed to me to be a greatly more significant name, although I realize the difficulties of changing any name.

Mr. HARRIS. My committee is on record recommending the change in name to our suggestion which was the "Production Credit Bank" of a given district. However, there has been some exploration of the matter by the Federal Board and Governor's office with the people who buy our debentures, and possibly because they are naturally cautious people and hesitate to O. K. any change because of what might happen; they cautioned that the same name should be retained, that it might have some influence on the sale of debentures.

My personal opinion is that it would not.

I do recognize, however, the problem involved at this particular time, Mr. Chairman, when money costs are going up, anyway, that the change in name might be blamed for increased costs that it was not responsible for, and get us some discredit for the changed name without it having been responsible.

But nevertheless, we would have higher costs and there could be that question raised.

Therefore, while our committee has not changed its opinion of the desirability of the changed name, we have agreed at this time not to press for it and would hope that we might accomplish it when money costs were not jumping around as they are right now.

Mr. POAGE. I do not think it is a matter of vital importance but it did seem to me more logical than the name "Intermediate Credit", which to most people probably does not mean as much as "Production Credit."

Certainly, there is no reason for hunting up additional troubles that we might be able to avoid; but it would be your opinion, I take it, that we might consider that at some future date?

Mr. HARRIS. We would hope very much that you would. The feeling of our committee is that the name "Intermediate Credit Bank" is not the most desirable and descriptive name that we could have.

Our production credit associations generally would prefer the name we have suggested or some other name than the one we are using.

I might add, also, that there are a number of production credit associations that would feel more favorable toward the proposed legislation if it included the change in name. Some of those that we have indicated here that show opposition, it is primarily because of the matter of the name. Only a small number relatively nationally, however.

Mr. POAGE. Thank you, sir.

Mr. MCINTIRE. Mr. HARRIS, I do not ask that it be extensive at all—but you are speaking, I understand as chairman of the National Advisory Committee—would you just state briefly how this committee is made up, for the record?

You also referred to the fact that you are representing the 11th Farm Credit District PCA Advisory Committee. Could you state for the record how this is made up in the district; and then how your national committee is brought together?

Mr. HARRIS. Well, there is some variation in the manner and the number of members—the manner in which they are selected in the various districts on the district advisory committee. And in some

cases there are State organizations in each State of the district, and each State has its own group.

And then they select one or more to serve on the district committee.

In my State we have four States in the district, the States of California, Nevada, Arizona, and Utah, and in three of those States there are only statewide associations.

In the case of Arizona, there are two, a farmers' association, and a livestock association.

In the case of Nevada, only one.

They each have a member in my district on the district advisory committee.

And then the so-called local associations in California, have in groups selected members to make up the balance of the committee of 11, I believe the number is. And I serve as ex officio, because I have been elected by the individual production credits, to be their representative on the national committee.

Now, in some other districts the president of the district committee automatically serves as the national committeeman and so on.

There are some variations, but essentially we are all selected or elected by the production credit associations of our individual districts.

Mr. McINTYRE. And the district associations and your national advisory committee are vehicles by which the various associations get a representation to speak for them and they are vehicles of the association and not vehicles of the farm credit districts as such?

Mr. HARRIS. Yes, sir; we are not any official part of the farm credit district organization or of the Farm Credit Administration in Washington. We are selected and have the job of representing as well as we are able to the viewpoint of the local, the grass roots production credit associations of our district.

Mr. McINTYRE. Thank you.

Mr. HARRIS. Now, we have some trouble sometimes when they cannot all agree. We try to represent then the majority.

Mr. POAGE. Thank you very much, Mr. Harris.

Mr. HARRIS. Thank you.

Mr. POAGE. I believe Mr. King Banks is the next name on the list. Mr. Banks?

STATEMENT OF KING L. BANKS, DELTA, COLO.

Mr. BANKS. My name is King L. Banks of Delta, Colo. I represent the ninth district of the Farm Credit Administration which is composed of the States of Kansas, Oklahoma, New Mexico and Colorado. We have 41 production credit associations.

My information from the State Chairmen of Kansas and Oklahoma is that their production credit associations are unanimous in support of the bill presented by the National Board—10285. They are against the provisions of the bill as presented by the Bureau of the Budget with the possible exception of the reduction suggested in the revolving fund. Some associations in New Mexico favor the new bill, some are against it. In Colorado, at a recent meeting of our State advisory committee, 4 associations favored the bill and 4 were against it.

The reason for the unfavorable votes in Colorado was principally the possibility of a raise in interest rate to our members to cover the additional cost. The others felt that the new bill presented by the National Board was such a long step forward that we should accept it and then if there was any appreciable increase in cost we could take the necessary steps, political or otherwise, to remedy the situation.

I might say that this increase in cost and the initial investment as suggested amounts to 2.07 percent of the average month end volume of loans and is of great concern to all associations in our district. The ninth district has consistently battled any change in the 1933 act other than amendments. But the 1953 act was passed and is now law. We realize the pressure on the new board to propose legislation to retire, as soon as possible, the Government capital in the system. The National Board has worked hard and conscientiously to this end and the bill they have presented, with the exception of the 2.07 percent initial investment, as we mentioned before, is a long step in this direction. We feel that if possible we should get the National Board's bill with the elimination or reduction in the initial investment.

For the record, again I wish to state that the ninth district, while not unanimous, is overwhelmingly for the passage of H. R. 10285.

Mr. POAGE. Mr. Banks, thank you very much.

Are there any questions?

If there are no questions, we will hear Mr. Lacey next.

STATEMENT OF W. E. LACEY, HOPKINSVILLE, KY.

Mr. LACEY. Mr. Chairman, and members of the committee, I believe for the record you might correct my name to W. E. Lacey. However, I might be better known as Jack Lacey, but for the record it might be W. E. Lacey.

I appreciate this opportunity of appearing before the committee, even though I do not have a prepared statement. I appear before this committee from the fourth district. My home is Hopkinsville, Ky., and I am a dirt farmer.

I have been for the past 19 years vice president of the West Kentucky Production Credit Association, and a part of that time I was also president.

During the 19 years I have served continuously on the loan committee, and have approved approximately \$20 million in loans to farmers for production purposes.

Also at this time I am vice chairman of the National Advisory Committee of Production Credit Associations, and I represent the fourth district here this afternoon.

The fourth district is almost solid for this legislation. As a matter of fact, there has been no recorded opposition on the fourth district. However, I have heard some grumbling from 2 associations, 1 located in Kentucky and 1 in Tennessee. Two other associations of the fourth are doubtful. So I would say that that would indicate that the fourth district is very much in favor of this legislation.

If I may, sir, I would like to comment briefly on a reference that the chairman made the other morning relative to a 300-percent increase in the cost of money during the last 18 months. I think I might say that most of the opposition to this bill has come as a result

of that increase in money. Certainly this bill has had no influence on that increased cost of money.

Now, I don't know what can be done about that increased cost of money. But, gentlemen, I would like to say it is serious. I foresee that the present cost of money, at the last sale of debentures, from that I foresee that very shortly the associations will be charging $6\frac{1}{2}$ per cent for money, plus the cost of service to the loan, and recording fees.

This is a condition that I think all associations are gravely concerned about, and I think rightly so. But instead of hurting that condition or further increasing the cost of money, I see no reason why this bill would have any effect whatsoever on the increase of the cost of money. And as a matter of fact, from a standpoint of streamlining the organizations, I can see where it might reasonably effect a savings there.

I believe, sir, that about completes my statement. As I said, I have no prepared statement. And I appreciate the opportunity of appearing.

Mr. POAGE. We appreciate your appearance and appreciate your suggestions.

Are there any questions?

If not, we will hear from Mr. Abner B. Larson.

**STATEMENT OF ABNER B. LARSON, SECRETARY-TREASURER,
MANDAN PCA, MANDAN, N. DAK.**

Mr. LARSON. Mr. Chairman, my name is Abner B. Larson, and I live in Mandan, N. Dak. I am secretary-treasurer of the Mandan Production Credit Association. I represent the Minnesota and North Dakota associations.

We had a meeting, held sometime after the meeting that was called by the Farm Credit Association in St. Paul last November. The association particularly that I represent has loans outstanding of \$3,600,000. We have capital of about \$290,000, reserves of almost \$400,000. And we loaned almost \$5 million last year.

I want to say this: As you no doubt will remember, I was one of the witnesses here a year ago that violently opposed the legislation before your committee at that time.

Before I go on with my statement, which I am taking from notes, I want to say that in general I am strongly supporting this bill. But I want to make a few remarks as I go along regarding what I think should be done in the future.

I believe that the meetings that the Farm Credit Administration called and particularly those meetings that were held in St. Paul, were very beneficial and much good came out of them. Now, we have given considerable thought to the proposed legislation, and in general I believe we should go along with it, hoping to improve it later after we have accomplished the first step in this merger.

Although I personally feel that this bill should incorporate features which are not now incorporated in the proposed legislation, I do not want to be likened to a beleaguering general who insists on capturing the citadel before taking the outposts.

This bill, in my opinion, will capture the main outposts for the farmer-owners. For the record, at least, I am listing here features which I believe should eventually be enacted into law for the good of the system:

1. I believe separate boards are eventually a necessity. The Farm Credit Act of 1953 reads in part as follows: "It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control and ultimate ownership of the permanent system of agricultural credit made available to institutions operating under the supervision of the Farm Credit Administration."

To the extent that the present bill fails to provide "increased borrower participation" in progressive control of the institution we are expected to purchase, it fails to carry out the declared policy of the Congress.

I do not consider that the present 2 PCA elected members on the District Farm Credit Board of 7 men will provide the Production Credit Association with adequate means of controlling the Federal Intermediate Credit Bank if we purchase it.

The argument in favor of the present setup has been that the 7 men on the District Board are equally interested in all 3 branches. This has never been questioned, but we do question that they are close enough to each institution to do a job that should be done.

I believe that such boards will stimulate the growth of the system by increase in volume which, in the final analysis, is the ultimate goal of everyone.

Although we believe the foregoing suggestions should be enacted into law in the future, it is not going to stop us from uniting behind this bill 100 percent, as we feel it is a big step in the right direction.

In fact, we will do all in our power to support the present legislation, and hope that in the not-too-distant future, legislation incorporating the above mentioned ideas will also be enacted into law. But for the time, let us do first things first.

In connection with this bill, I would like to make another remark in connection with the retirement of stock. I know the intent is right, but I at least want to put this in the record, Mr. Chairman. And I refer to H. R. 10285. And I quote lines 6 through 11 on page 8:

After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration.

The intent of this clause, I am sure, is to give the Administration authority to make adjustments when an association owned stock out of proportion, and I think this authority is sound. However, suppose someone wanted this authority at some future time to eliminate all grassroots ownership in this source of agricultural credit, and with this authority retired all Class B stock owned by all the associations.

He could eliminate our ownership after he had paid for it, and then exercise jurisdiction over the bank with all of the surplus that has been accumulated.

This, I believe, can be corrected by inserting one sentence:

In no case shall all of the class B stock owned by an association or all of the participation certificates owned by other lending agencies be retired without consent of said association and/or other lending agencies.

Now, at this time I want also—although this bill is not before your committee at this time—I hope that I may take up opposition to S. 3550, and put that in the record in case it should come before your committee, and I cannot be here.

Mr. POAGE. It may be before us tomorrow morning. I understand it was introduced yesterday in the Senate, the same language.

Mr. LARSON. I refer to page 12, lines 22 through 25 of S. 3550. It provides for the Government to keep continuing interest in part of the surplus, even after all Government capital has been retired. This is contrary to principle and precedent. The Banks for Cooperatives and Federal Land Banks have been permitted to keep their surplus without Government interest in case of liquidation, and we see no reason to treat us differently.

We see no reason to keep the Federal intermediate credit bank under the Corporation Control Act. If this bill is passed, why, we are in effect entering into a contract with the Government to buy this system, and we do not think it is necessary for the Budget Bureau to tell us how to run it.

We also oppose the reduction of the \$30 million called for in that bill regarding the revolving fund, the reduction in the revolving fund.

At this time, in conclusion, I want to thank this committee for what we think was a very good job on your part, and good judgment, a year ago. We feel very happy about this. And at this time I again hope that this committee will again be favorable to our views in recommending the passage of this bill.

I recall this morning—I think it was Mr. Harris who made a statement regarding the elimination of secretaries being on district boards.

Now, I have been a secretary of the Mandan Production Credit Association, which is the largest one in our district, since the date of organization. And it has been my firm belief—and we so expressed ourselves here last year—that this is an organization of farmers to be owned by farmers, and for that reason I do not think and do not believe that the secretary should be on a district board. But I do not believe management should be setting policy for this institution. I believe this is going to be an institution eventually fully owned and controlled by the farmers themselves. And in that position I sincerely believe that the farmers who are the owners should elect the directors, and that secretaries should not be permitted to sit on district boards.

Thank you very much. I greatly appreciate your giving me this much time to appear before your committee.

Mr. JOHNSON. There is one question I wanted to ask. You come from an area that has been noted in the past for having a high interest rate, as high as any part of the country. What are you charging out there on the Production Credit Board?

Mr. LARSON. Five and a half percent. And we are operating on a 2 $\frac{1}{4}$ -percent spread. And I am telling you, that is not sound business. The only reason we are operating on that thin spread at this time is due to the fact that we are big enough to do it. But I feel sorry for the small associations. I sincerely hope that something is done regarding this interest. And as long as you are talking about interest, I would like to put in another remark. If people are really interested in controlling inflation I don't think it is going to be done by charging high rates of interest and putting a lot of more interest income into the hands of the bankers, I think the only way to do that is to control the credit itself, if anybody has got the intestinal fortitude to do that, by making people pay more down on payments of things they buy, that will really control inflation. But that is going to take courage,

and probably isn't the thing to do. But I certainly don't believe that raising interest rates is going to stop a man from buying an automobile and paying 20 percent.

Mr. JOHNSON. The reason I asked you that was, I mentioned this morning the memorandum that was drawn to my attention in western Wisconsin when I was home at the Easter recess. This particular association was charging 5½ percent, and they were contemplating raising it to 6 percent. I secured the memorandum when I returned to the office this afternoon. I was just wondering, North Dakota had higher interest rates than Wisconsin in the past, and yet you are operating right now for 5½.

Mr. LARSON. We are operating at 5½. We made \$80,000 net profit last year. We returned 10 percent of our interest to our farmers, and as a result their net interest rate was 4.55, and we paid a 5-percent dividend to our A stockholders.

Mr. GATHINGS. Mr. Chairman, I would like to say to Mr. Larson, I believe your suggestion should be looked into carefully in regard to the retirement of the stock, that the association members should have a voice. I think the committee ought to study that recommendation carefully.

Mr. LARSON. I don't think that should stop the bill. I think just one sentence in there will do the job, just to spell it out. And I certainly don't want anything to stop this bill.

Mr. GATHINGS. I believe I recall your testimony here last year.

Mr. LARSON. I was a little emphatic, I think, the other way.

Mr. POAGE. Are there any other questions?

We are very much obliged to you, Mr. Larson.

Mr. LARSON. Thank you very much.

Mr. POAGE. Mr. C. Dudley Miller.

STATEMENT OF CHARLES DUDLEY MILLER, DIRECTOR, GREENVILLE PRODUCTION CREDIT ASSOCIATION, GLEN ALLEN, MISS.

Mr. MILLER. Mr. Chairman and gentlemen of the subcommittee, my name is Charles Dudley Miller, from Glen Allen, Miss., and I am a member of the board of directors of the Greenville Production Credit Association of Greenville, Miss., and I have been a director for the past 15 years.

Our association has some 850 members; we have a total net worth of \$1,275,000 entirely owned by our members which includes \$721,900 in stock and \$553,500 in surplus. In 1955 we loaned \$10,244,000 to members for the production of cotton, livestock, rice, soybeans, corn and small grains.

During the past year I have attended four meetings of the present credit district which were held primarily for the discussion of the present legislation now pending and known as H. R. 10285 and other identical bills. It is my conviction and the conviction of the other board members of our association that under the mandate from Congress to the Federal Farm Credit Board this legislation should be passed immediately. The Farm Credit Administration has presented a number of different plans at the district meetings referred to above, but this bill (H. R. 10285) is by far the very best plan that has ever been presented.

While I have not polled the other members of our board, it is my belief they will agree with me 100 percent that this bill should be passed immediately for the following reasons:

1. Even though it would cost us about \$80,000 over the next 2 years for stock in the new consolidation and we would lose the interest on this money, approximately \$2,400 per year, we feel confident that the savings to be made by this consolidation of the production-credit corporation and the Federal intermediate credit bank would more than offset this interest. This has been made clear by the Andersen report, which was a study made by the Arthur Andersen & Co. of the operations and functions of the production-credit corporation and the Federal intermediate credit bank in Omaha, Nebr., and Columbia, S. C., districts. The possible savings listed in this report would be equally true of the production-credit corporation and the Federal intermediate credit bank in the fifth district.

2. Like other Federal institutions that are dependent under the present system of Federal appropriations each year for their expenses, the production-credit corporations and the Federal intermediate credit banks see to it that all of these appropriations are used up, because they are afraid that if they are not used their next year's appropriations will be reduced.

If this new legislation is put into effect then this would not be true. It would be to the advantage of all associations to see that the consolidated bank operated on the most efficient and economical basis possible.

3. If the associations put up their own money for stock in the new merged institution, they will individually and collectively take greater interest and investigate more extensively about the operation and management of the new bank. This is true of individuals as well as associations.

4. The reasons I believe that time is important in the passage of this bill are as follows:

(a) Conditions are unsettled, discount rates are going up, and if we can effect savings on this merger we will need these savings now.

(b) As long as the employees of the production-credit corporations and the Federal intermediate credit banks know their positions in these institutions are unsettled then the morale and efficiency of the operation of these institutions are hampered. Naturally, these employees are looking for other positions with a more certain and favorable future.

(c) If this bill is not passed now and action is delayed, it is quite possible that we will never secure as good legislation again.

(d) As you have heard, some 90 percent of all the associations in the United States are in favor of the immediate passage of this bill—we don't believe that we could ever secure such unanimity on any other piece of legislation.

We are extremely proud of our association and feel that we can speak with some authority and expert knowledge on the operations of a farm-credit institution. While we do give tremendous credit and our sincerest appreciation to both the production-credit corporations and the Federal intermediate credit banks, we do think we have made an enviable record.

We started in 1934 with \$50 of farmers' money and \$250,000 of Government money. That year we loaned \$754,221. In 1951 we finished paying back all of the Government money and since that year we have paid taxes of every kind, including income taxes of approximately \$25,000 each year up to 1956.

Mr. POAGE. We thank you very much, Mr. Miller.

Are there any questions?

Mr. GATHINGS. I would just like to ask Mr. Miller, here, on page 3 you say this:

As you have heard, some 90 percent of all the associations in the United States are in favor of the immediate passage of this bill * * *

Mr. MILLER. I might say, sir, that that was taken from the poll that was made by the advisory committee yesterday in which they counted 498 associations total, and out of that total they could find only 52 associations that were not in favor of the bill. And included in that—

Mr. GATHINGS. How many of them are included? Did you take that into consideration?

Mr. MILLER. We took that into consideration.

Mr. GATHINGS. The ones that have not come to any conclusion on the legislation are included?

Mr. MILLER. That is right.

Mr. GATHINGS. And that would total 58?

Mr. MILLER. Approximately.

Mr. DIXON. I would like to ask a question. Have you had objections from the OFT's to this merger?

Mr. MILLER. Well, I am in the fifth farm-credit district, and I haven't head of any objection from ours. Now, we have about two. One of them is the same cotton-cooperative association that operates in Greenwood, Miss., and they have a representative at most of our district meetings. And I think they have made no objection to this bill, at least I have not heard of it. And they were even in favor of the bill that was brought up here some 8 or 10 months ago, that representative plan, and so forth.

Mr. DIXON. If this merger were made, could you be fully as sensitive to their needs as you are now?

Mr. MILLER. In my opinion, yes.

Mr. DIXON. Do you think you could act in their best interest?

Mr. MILLER. I think we could handle their business in the same manner as it is being handled now.

Mr. POAGE. Thank you very much, Mr. Miller; we are very much obliged to you.

Mr. MILLER. I appreciate this opportunity of being here and the time you have given me.

Mr. POAGE. We would be glad to hear from Mr. Justice.

You may proceed, Mr. Justice.

STATEMENT OF ROBERT O. JUSTICE, PRESIDENT, PERU PRODUCTION CREDIT ASSOCIATION, LOGANSPOUT, IND., ACCOMPANIED BY JOSEPH F. PAYNE, SECRETARY-TREASURER

Mr. JUSTICE. I am Robert O. Justice, from Peru, Ind., president of the board of the Peru Production Credit Association.

And I have with me our secretary, Joseph Payne.

Mr. POAGE. We are glad to have Mr. Payne present.

Mr. JUSTICE. It is a privilege for Mr. Payne and me to appear before you gentlemen. As some of you may remember, we appeared last year.

We operate in north-central Indiana, in the general farming area. We have 3,054 farm members of our association.

In 1955, we loaned \$9,628,163. On March 1, 1956, we had an outstanding balance of \$5,322,619. I don't say that in a boastful manner in any way. But when we were having the hearing in the district, the Federal Board was having hearings on the bill to study it, and questions were asked, and so forth, and some of the associations referred to us as a wealthy association. I came back with the statement that if we were characterized that way, we would pay more of the cost. And I think that is true.

This bill provides that the cost of the stock in the corporation, of the bank, will be proportionate to the amount of business you do with the bank.

We are here for the purpose of urging the passage of H. R. 10285. I, particularly, wish to say that we do not represent the district nor any particular group of associations. We are here primarily to represent the membership of our association. And, with apologies to other statements that have been made, I would like to say that the member is the most important individual in this whole business. And as I have worked for Production Credit for 22 years, I certainly have had in mind the interest of the individual borrower. He is the man who is going to pay the cost, he is the man who is going to be benefited or not benefited by any legislation that is passed.

So we are here to try to reflect the thought and feeling of the individual members out here on the farms. And from my contact over the past 22 years with other directors and secretary-treasurers in the four States of Tennessee, Kentucky, Ohio, and Indiana, and the acquaintances I have made, I am quite sure that our opinion reflects the thinking of these other members in the fourth district.

I don't want to bring in any repetition here, but we attended the conference, or the directors conferences, 2 of which were held in Louisville, to study this legislation, and there were approximately 246 directors of the 40 associations in the fourth district in attendance, and there was a lot of discussion and lot of consideration, and some pretty radical statements made at the first meeting. And there was no agreement, as you know—as has been brought out here before.

At the second meeting, when Governor Tootell and Mr. Miles presented the revised bill, or the bill that is presented to you here at this meeting, there was a unanimous approval given.

Now, it has been pointed out that some few of the associations—I believe Mr. Lacey, who really represents the district, pointed out there were one or two associations that did not approve. But in this meeting at Louisville, the district conference at which we were studying the bill, we took a vote and it was given unanimous approval.

I explained this bill to 600 of our members in a stockholders meeting on March 7, 1956. And their comments were—I spent quite a little time explaining this bill to the members and going into the detail of the purpose and method of accomplishment. And they were very

much pleased with the prospects of acquiring another unit or two of the Farm Credit Administration.

It was with a lot of pride that the members returned the "A" stock in our association back in 1952. And I am sure that they are looking forward to the returning of the Government capital to the other units proposed in this legislation. And as evidence of their approval, our business has increased to the extent of \$2 million in our association since the stock was all retired.

We appeared to testify before this committee in May 1955 on H. R. 5168. At that time we favored a bill embodying the principles contained in this bill, H. R. 10285, but we were willing to support the bill presented last year rather than not have any plan for retiring the Government capital from the Production Credit Corporation and the Federal Intermediate Credit Bank.

We therefore urge the passage of this bill because it carries out the intent of the Farm Credit Act of 1933 and the declared policy of the Farm Credit Act of 1953. And we are sure it meets the approval of the great majority of production-credit associations in the United States.

I appreciate your listening to our statement, and I want to thank you for doing so. I did really appreciate this morning the attendance of other members of this board, which tells me that there is a lot of interest in this bill.

(The complete prepared statement of Mr. Justice is as follows:)

Mr. Chairman and gentlemen of the committee, we are Joseph Payne, secretary-treasurer, and Robert O. Justice, president, of the board of the Peru Production Credit Association, Peru, Ind., representing 3,054 farmer members of our association. In 1955 the Peru association loaned \$9,628,163 and had an outstanding balance on March 31, 1956, of \$5,322,619.

I have been a member of the board since organization in March 1934 and have seen our association grow from no reserves until this date when we have reserves of \$540,416 and a net worth of \$1,058,631.

We are here for the purpose of urging the passage of H. R. 10285. We have not been sent here by any group of associations, but are here on our own to represent the 3,054 members in our association and think that our sentiments reflect the majority of the thinking in the 4th district. It is because of my contacts and acquaintance with the directors and secretary-treasurers during the past 22 years that I make the above statement. The Louisville (4th) district had 41,731 active members on March 31, 1956, with outstanding loans of \$95,443,098.

Proposed legislation has been presented to the directors and secretary-treasurers of our district twice since the 1955 bill, H. R. 5168, was considered by this committee and at the first of these meetings there were many different opinions, dissatisfaction, and questions, but, when the draft of this bill was presented at a later date by Governor Tootell and Mr. Miles, a resolution approving legislation such as H. R. 10285 was unanimous approved in the 4th district.

I explained this bill to 600 of our members at our annual meeting on March 7, 1956, and their comments were to urge passage of the bill as it provides a means by which the Government capital can be retired from two more farm credit units with the least possible hardship to the members of the associations.

It was with great pride that the members of our association returned the class A stock held by the Government in our association, and we know from their expressions that they are looking forward to returning the Government capital from the other units proposed in this legislation.

We appeared and testified before this committee in May 1955 on H. R. 5168. At that time we favored a bill embodying the principles contained in this bill, H. R. 10285, but we were willing to support the bill presented last year rather than not have any plan for retiring the Government capital from the production credit corporation or the Federal intermediate credit bank.

We, therefore, urge the passage of this bill because it carries out the intent of the Farm Credit Act of 1933 and the declared policy of the Farm Credit Act of 1953 and we are sure it meets the approval of the great majority of production credit associations in the United States.

Mr. POAGE. We are very much obliged to you, Mr. Justice and Mr. Payne.

Now, Mr. Hayes and Mr. Hauenstein, both of you came together; if you care to appear together, you may; or we will hear you separately.

STATEMENTS OF B. L. HAUENSTEIN, SECRETARY-TREASURER, BLACKHAWK PRODUCTION CREDIT ASSOCIATION, FREEPORT, ILL.; AND GEORGE F. HAYES, PRESIDENT, KEWANEE PRODUCTION CREDIT ASSOCIATION, KEWANEE, ILL.

Mr. HAYES. Mr. Chairman and gentlemen, we are pleased at the privilege of being here and favorably testifying in favor of this bill that is under consideration.

My name is George F. Hayes. I live at Galva, Ill. I am president of the Kewanee Production Credit Association, which was the first farmer-owned production credit association in the United States. I have been president for 3 years, and was one of the original directors.

I am 1 of 2 who are here to represent a group of associations. My colleague is Mr. B. L. Hauenstein of Freeport, Ill., who is secretary-treasurer of the Blackhawk Association at that place.

The 6 associations which we represent have together 6,157 members, and they have extended credit during the year 1955 in the amount of \$24,700,000. Our mission is to assure you that those associations approve and earnestly desire the enactment of this measure which is under consideration.

Since the enactment of the Farm Credit Act of 1953, which required action to get Government capital out of the farm credit system, this group of associations has held meetings from time to time for the purpose of considering ways and means of improving the efficiency of the system, along with the elimination of the Government capital. We held these meetings on our own initiative, feeling that the legislation when eventually passed would need the support of farmer-borrowers, and we hope to reflect farmer views in our presentations to those who are preparing the legislation.

We opposed the legislation considered a year ago because we felt the membership was not sufficiently aware of the problem, and that its best thought had not yet been directed toward a solution of the problem.

But since that time the situation has changed. The National Farm Credit Board sponsored a series of district meetings last summer, the first of which was held in our district at St. Louis. The meeting was well attended. And there was full and free discussion of matters pertaining to reorganization. There was not only the question of Government capital, but also the desirability of including other beneficial changes, which more than 20 years of experience suggested. Many ideas were advanced at the meeting and afterwards which have been tested in the light of full discussion.

We believe the best of these ideas are incorporated in the present bill. And all this has enabled the associations to achieve a rather

remarkable unanimity in favor of the bill. Normally, production credit associations are in full accord with the declaration of policy as stated on the bill. We believe the provisions of the bill were derived from the best thinking of farmers interested in agricultural credit, as well as from the thinking of men highly qualified in the field of business administration, including the findings of a well-known business efficiency organization.

We are convinced that its enactment will insure a system which will adequately meet the needs of farmers for sound, short-term credit, and at the same time gradually release Government capital.

Also, we would expect full ownership, and a greater concentration of responsibility at the local level to stimulate farmer interest, which will result in a broader acceptance of the system's services.

Our group of associations were present at a statewide meeting of the Illinois associations held in Springfield on April 12, and after a full discussion, a resolution was adopted pledging support to H. R. 10285. The vote was unanimous, and there was no dissenting argument.

Gentlemen, that concludes my statement. And I thank you for hearing it.

Mr. POAGE. Thank you so much, Mr. Hayes.

Mr. DIXON. Do you have any opposition to this from the OFI's?

Mr. HAYES. None, of course, through this association at Kewanee, but I think that probably some through their bank at St. Louis.

Mr. DIXON. Have they raised any objection to this legislation or merger?

Mr. HAYES. We have heard no objection in our locality.

Mr. DIXON. Thank you.

Mr. POAGE. Mr. Hauenstein, I believe Mr. Christopher said he had to stay here to hear you.

Mr. HAUENSTEIN. Due to the lateness of the hour and the fact that Mr. Hayes has pretty well covered our views, I am not going to make a statement, Mr. Chairman. Although in northern Illinois most of the associations are very much concerned with this money costs, we are in an area of very competitive interest rate, and our interest rate is 5 percent, and we are operating at the present time with only a 1¾-percent spread, and it is getting pretty tight. And we have only been able to do so because of a large volume of business. And that is quite a problem for the association in our area, because there you have enough industry, and the banks in the medium-sized towns are loaning money at a lower rate than what we are at the present time, and 5 percent is just about the general rate.

Mr. JOHNSON. What are your banks lending money for in that area? Are you and the banks lending at the same rate now?

Mr. HAUENSTEIN. The bank will finance some feeder cattle, there are a lot of cattle fed in our area, at 4 percent. But the general rate is 5 percent. And we are competitive on the general rate basis. But there is a lot of 4 percent money available too.

Mr. HAYES. Our association's rate is 5½ percent at Kewanee.

Mr. POAGE. Any further questions?

If not, we thank you both very much.

Now, Mr. King is not here, I believe.

Mr. HAUENSTEIN. No, he didn't come.

Mr. POAGE. Now, that completes the list that I have of witnesses in support of the bill. I have the names of Mr. John C. Lynn, here, and

Mr. Riggle, and I don't know whether you gentlemen are supporting or opposing.

Mr. LYNN. I would like to explain that, Mr. Chairman.

Mr. POAGE. Is it something that you can explain in a few minutes, or is it something that would take a long time? I don't want to cut you off.

Mr. LYNN. I think we could finish in 3 or 4 minutes.

Mr. POAGE. Fine. We would be delighted to hear from you.

STATEMENT OF JOHN C. LYNN, LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY HUGH HALL, STAFF MEMBER

Mr. LYNN. My name is John C. Lynn, Legislative Director for the American Farm Bureau Federation.

I have with Mr. Hugh Hall, who is a member of our staff and is more or less an expert in this field, and I am not.

Mr. Chairman, we have a 4- or 5-page statement which I would like to file for the record, if I may.

Mr. POAGE. Without objection it will be included.

(The statement referred to is as follows:)

STATEMENT OF JOHN C. LYNN, LEGISLATIVE DIRECTOR, THE AMERICAN FARM BUREAU FEDERATION

Mr. Chairman, gentlemen of the committee, we wish to express our appreciation on behalf of the American Farm Bureau Federation for this opportunity to appear before your committee and present our views concerning the proposal to merge the Production Credit Corporation with the Federal intermediate credit banks.

The American Farm Bureau Federation is a voluntary, non-governmental organization of farmers, the total family membership of which numbers 1,623,222 as of last November 30.

The American Farm Bureau Federation has for many years actively supported the decentralization of the Farm Credit Administration which finally resulted in the enactment of the Farm Credit Act of 1953. Among the objectives which were sought are farmer ownership and control of the several Farm Credit institutions and the retirement of Government capital in the system. These principles were set forth in our resolutions of 1952 and 1953 and support for them has been continued since that time.

A number of the objectives included in our resolutions have already been achieved.

We would like to review our resolutions of 1953 in this regard and make comments on the status of various recommendations and indicate those that are covered by the pending legislation.

Our resolution of December 1953 reads as follows:

"The Farm Credit Act of 1953 is a long step toward a fully farmer-owned and controlled Farm Credit System. Much remains to be done in authorizing sound provisions for the retirement of Government capital, in authorizing sound and businesslike procedures and in policymaking by the Federal Farm Credit Board."

This portion of the resolution lays the groundwork for the establishment of a fully farmer owned and controlled Farm Credit structure. The Federal Land Bank System has already reached this objective both as to farmer ownership and control, and as to the retirement of Government capital. The Farm Credit Act of 1955 has set up the program under which the Banks for Cooperatives will be able to retire the Government capital invested therein.

Continuing with the resolution:

"The Farm Credit Act of 1953 directs the Farm Credit Board to propose legislation designed to hasten the retirement of Government capital in the Farm Credit System on a sound basis and to improve the operation and service of the System. The Farm Credit Board should give consideration to the following in its recommendations:

"(1) Authority should be provided for the Federal land bank to purchase the remaining assets of the Federal Farm Mortgage Corporation. The Farm Credit Board should study the possibility of using this corporation, if acquired, to either insure or to make loans at appropriate interest rates to supplement those now made by Federal land banks based upon appraised normal agricultural value. There is real need for more adequate loans, and this may be the best way to provide them without jeopardizing the financial condition of the Land Banks."

The purchase of the assets of the Federal Farm Mortgage Corporation has been provided for by special enactment.

The resolution continues:

"There should be authority for the Production Credit Associations to pay a preferential dividend on class A nonvoting stock to encourage farmer investment and thereby provide more capital for the retirement of Government investments in the Production Credit Associations."

This authority was granted by the Farm Credit Act of 1955.

The resolutions continue:

"Provisions should be enacted to encourage cooperatives borrowing from the Banks for Cooperatives to purchase stock in the banks on a sound basis that would speed the retirement of Government capital in such banks."

This resolution also was embodied in the Farm Credit Act of 1955.

The next point in the resolution provides:

"Government capital remaining in the Farm Credit System should be retired in a manner and at a rate that will maintain the financial strength of each unit. All the retired Government capital should be placed in a permanent revolving fund, subject to being called back into the System by the Farm Credit Board with the approval of the Secretary of the Treasury. When such capital is recalled, the Farm Credit System should pay a rate of interest on the amounts recalled that would equal the average rate paid by the Government in that year on funds it borrows."

We believe the principles embodied in this bill are consistent with this resolution, as is the Farm Credit Act of 1955, with respect to the Banks for Cooperatives. The pending legislation provides for the retirement of Government capital in the Production Credit Corporations and the Federal Intermediate Credit Banks in a manner designed to maintain the financial status of each of the merged Federal Intermediate Credit Banks.

The bill also provides that the Government capital retired, as a result of this legislation, will be placed in a permanent revolving fund subject to being called back into the System as may be required. When this is done the Farm Credit System will pay either interest or a franchise tax as provided in a formula in the bill for determining the amount of payment for use of such funds.

Our 1953 resolution also provides: "The maximum loan limit of the land banks should be raised to a more realistic level."

This was done in the Farm Credit Act of 1955.

The resolution further states: "The Banks for Cooperatives should be authorized to issue consolidated debentures."

This likewise was authorized in the 1955 act.

The resolution continues: "The Farm Credit System should be removed from the provisions of the Government Corporation Control Act."

We understand the pending bill will carry out this recommendation except with respect to the audit power which exists with regard to mixed ownership corporations. Whenever any Federal Intermediate Credit Bank has retired its government capital, it will then be free from the latter requirement.

Our resolution continues: "The Farm Credit System has the purpose of providing sound and adequate credit facilities for farmers and farmer cooperatives at the lowest possible cost. We urge the adoption of measures and procedures including such consolidation and unification or coordination as will best serve the needs of farmers and farmer co-ops."

The proposed merger of the Production Credit Corporations and the Federal Intermediate Credit Banks, under the plan recommended in these bills for the retirement of Government capital, is intended to place the Farm Credit institutions in the position of achieving the ends of the foregoing resolutions.

While the Production Credit Associations have been doing the major portion of business with the Federal Intermediate Credit Banks in recent years, there have been so-called other financial institutions which have been using the loan and discount facilities of the Federal Intermediate Credit Banks.

In the pending bills it is proposed that the Production Credit Associations provide the initial capital necessary to begin the retirement of the capital invest-

ment of the Federal Government. They would also become, in the event of ultimate liquidation or dissolution of the banks, the beneficiaries of the accumulated surpluses in both the Production Credit Corporations and the Federal Intermediate Credit Banks. We recognize that the bill provides these surpluses existing at the time of the merger are prohibited from being distributed as patronage dividends. There remains, however, discrimination as between the Production Credit Associations and the other financial institutions with respect to surplus funds existing at the time of the merger, in the event of liquidation or dissolution of the banks while in a solvent condition. In addition to discrimination on this point, there has arisen concern relative to the voting rights and privileges of the other financial institutions as compared with Production Credit Associations. To correct this, the executive committee of the American Farm Bureau Federation on April 16, 1956 adopted the following motion:

"That we support the bill with an amendment to give farmer-owned and controlled financing institutions which operate on cooperative principles, and which have been using the facilities of the Federal Intermediate Credit Banks, an election to acquire stock ownership, including voting rights and privileges, and the right to participate in any ultimate distribution of the surpluses existing at the time of the merger, on the same basis as the Production Credit Associations, this election to be exercised within a reasonable time prior to the effective date of the proposed merger."

The change on page 14 of the bill of the word "three" to the word "seven" represents a very important and constructive change in short term credit. The effect of this provision is to authorize the Banks to discount so-called intermediate term credit paper running up to seven years. Present law now provides for a 3-year term as maximum.

Our resolutions provide:

"Longer term production loans are needed by many farmers. Loans for 2 to 7 years, bridging the gap between short-term and long-term credit, may be desirable for the purchase of machinery and equipment, improvement and construction of farm buildings, and establishment of some types of livestock operations. Commercial and cooperative lending agencies should provide intermediate term credit for farmers for these particular needs.

"We urge lenders to take steps to meet this type of credit need."

We believe that with amendments designed to carry out our recommendations, the proposal should be enacted into law.

Mr. LYNN. On page 4 of this statement I call your attention to this matter that we think ought to be considered in this legislation.

Let me say at the outset that we are in support of this bill with the suggested amendment.

If you will turn to page 4, sir, beginning at the third paragraph, I would like to read this:

While the production credit associations have been doing the major portion of business with the Federal intermediate credit banks in recent years, there have been so-called other financial institutions which have been using the loan and discount facilities of the Federal intermediate credit banks.

In the pending bills it is proposed that the production credit associations provide the initial capital necessary to begin the retirement of the capital investment of the Federal Government. They would also become, in the event of ultimate liquidation or dissolution of the banks, the beneficiaries of the accumulated surpluses in both the production credit corporations and the Federal intermediate credit banks. We recognize that the bill provides these surpluses existing at the time of the merger are prohibited from being distributed as patronage dividends. There remains, however, discrimination as between the production credit associations and the "other financial institutions" with respect to surplus funds existing at the time of the merger, in the event of liquidation or dissolution of the banks while in a solvent condition. In addition to discrimination on this point, there

has arisen concern relative to the voting rights and privileges of the "other financial institutions" as compared with production credit associations. To correct this, the executive committee of the American Farm Bureau Federation on April 16, 1956, adopted the following motion:

That we support the bill with an amendment to give farmer-owned and controlled financing institutions which operate on cooperative principles, and which have been using the facilities of the Federal intermediate credit banks, an election to acquire stock ownership, including voting rights and privileges, and the right to participate in any ultimate distribution of the surpluses existing at the time of the merger, on the same basis as the production credit associations, this election to be exercised within a reasonable time prior to the effective date of the proposed merger.

I might just add, Mr. Chairman, we recognize that parts of this recommendation might be included as part of the legislation. However, you will recognize that part of this is administrative determination, particularly the part having to do with farmer owned and controlled financing institutions, which operate on cooperative principle.

We would suggest, sir—we do not have a specific place in the bill for this, it might be inserted in an appropriate place on page 7 of this bill—but we do believe that there is a problem here, and we believe without hurting the bill in any way this will give some protection to the other financial institutions who have a great interest in this legislation.

Mr. POAGE. Mr. Lynn, this would create a third class, wouldn't it?

Mr. HALL. No, this wouldn't create any additional class of borrowers, that is not a third class.

Mr. POAGE. It would not?

Mr. HALL. No, they are not borrowers, these people are going to be owners.

Mr. POAGE. These people are borrowing from the intermediate credit bank, aren't they?

Mr. HALL. Perhaps I misunderstand you. The other financial institutions including banks discount paper with the intermediate credit bank as do the production credit associations.

Mr. POAGE. We now have two, the production credit associations which are strictly regulated, and as the Governor pointed out, they are prevented from dealing in any other source of credit in order to make it more easy to handle their line of credit with the intermediate credit banks. And they must subject themselves to substantial restrictions upon their freedom of action in order to get the benefits that they get by reason of having this additional source of discount. On the other hand, we have the other credit institutions on which restrictions are not imposed, they can deal with a bank, with an insurance company or anybody else who wants to put up money, but they do not enjoy all the privileges of a production credit association. The usual thing that goes all through life, that if you accept certain benefits you must accept burdens that go with it.

And as the bill is now drawn, you can only make one or two choices, you either get all the benefits and accept all the obligations of a production credit association, or you accept only the rather limited benefits that are given to the other credit institutions.

The way the bill is now drawn, there are just two classes of borrowers who rediscount their paper, isn't there?

Mr. HALL. In that sense, yes. However, this isn't a question of who can discount and who cannot discount; this goes to the question of the capital that is going to be put in to retire Government capital.

Mr. POAGE. I know; the production credit associations under the present bill must put capital in there.

Mr. HALL. Yes.

Mr. POAGE. Whereas the other financial institutions do not have to put any capital in.

Mr. HALL. In fact, they are prohibited from it. And in essence, this amendment is to give them an election to do so if they wish.

Mr. POAGE. And this creates a third group, does it not, this confers upon a third group, not all of the other credit institutions by any means, but if they happen to be cooperative in their nature, then they can accept a position in which they gain a great many of the benefits—in fact, as I see it, they gain practically all of the benefits that a production credit association has. I don't really see any material advantage that a production credit association would have here that these people would have, do you?

Mr. HALL. No, there isn't any that the production credit association would have. But on the other hand, this class of borrowers, that is, other financial institutions, would still be in a position to go outside and discount paper if they wished.

Mr. POAGE. That is right. In other words, they get all of the advantages of a production credit association, they they do not assume all of the burdens.

Mr. HALL. Well, the only burden they do not assume has to do with the question of supervision, if indeed that is a burden at all.

Mr. POAGE. That is not the only one. I think that is certainly one. But they can also borrow from the New York Life Insurance Company if the New York Life will lend to them, can they not?

Mr. HALL. You are speaking of other financial institutions?

Mr. POAGE. I am talking about this new class. They can discount their paper with a commercial bank if the bank will do it?

Mr. HALL. Certainly.

Mr. POAGE. Consequently, they are not subject to the limitation of action that there is imposed upon the production credit association. I think the Governor very clearly explained this afternoon why we imposed that limitation on the production credit associations. Then it comes to this question in my mind, if we are going to remove the limitations from this particular class of borrowers that you set up, why shouldn't we do it from the PCAC's? They are cooperative, too.

Mr. HALL. I want to try to answer that. I don't think there is any limitation that is being removed from anybody. I don't quite get your point.

Mr. POAGE. I believe you understand what I am driving at. And I would appreciate an answer on it, because, you understand, as I pointed out, that these borrowers today who refuse to become PCA's, who refuse to qualify as PCA's, and who don't get a charter as a PCA, but who take a charter from the state on considerably different terms, at the present time they have a right to come in just the same as some other lending company, some private concern, they have got a right to come in on the same basis as another financial institution and borrow money. But that is all they have the right to do at the present time, and it is all they have the right to do under this bill if it is passed

without your amendment. But with your amendment, you give to this particular group of other financial institutions all of the advantages that are given to PCA's, but you don't restrict them to all their credit operations with the intermediate credit bank. You let them go and shop here and yonder and get five or six lines of credit if they can do it, an open invitation to bankruptcy, so my banker tells me. I have tried that individually, going around to two or three banks, and I have always been called down on it.

Now, you are going to give these people advantages, the very people whom I think need supervision the worst, these people who have this opportunity to shop here and yonder; I should think they need an examination probably more frequently and more completely than these PCA's that can't do those things.

But you are not going to subject them to any examination; you are not going to subject them to any supervision; you are going to give them a preferred status. If we are going to confer that status on this particular group, why don't we do it on PCA's, too?

Mr. HALL. I don't think I agree with you. I don't agree with you that there is any preferred status imposed upon this group. And secondly, as the law now stands, and as the practice has been, as I understand it and as I have heard it described here today, the other financial institutions enjoy, except with respect to having their affairs audited and supervised, the privileges of discount the same as PCA's today, and that is to be continued and further cemented into the structure.

Mr. POAGE. That is right. But why do you want to except these people from any examination?

Now, why do you want to pick out a certain group and confer upon them all the privileges of a PCA, but deny placing the obligations on them?

Mr. HALL. I am afraid I can't agree with you on your premise here.

Mr. POAGE. I didn't ask you to agree with me at all.

Mr. HALL. Let's go back, then, to the basis of this motion that was agreed to.

Mr. POAGE. I didn't agree to that motion.

Mr. HALL. I know you didn't. It was agreed to by our executive committee. I want to explain it. The question arises out of the provision of the bill under which in the event of the dissolution of an intermediate credit bank, after the retirement of Government capital, it might be possible—now this is a highly remote contingency—but it might be possible to imagine such a situation where the PCA's, without this amendment, would enjoy the accretion of this surplus up to the time of this merger.

Now, it is suggested by some folks that part of the earnings, part of this accumulated surplus, is due to the business that has been contributed by the OFI's during the life of the intermediate credit banks, from 1923 on. Governor Tootell testified, and we have had this figure in our mind for some time now, that on a rough estimate it looks like it might amount to as much as 20 percent of the accumulated surplus of the Federal Intermediate Credit Bank.

Now, then, some folks say that it would alleviate this apparent discrimination if these people, who are not PCA's, these so-called other financial institutions, but which are cooperative associations as defined here, were given the opportunity to make an election, that that

would eliminate the discrimination, that it would disappear, that we could all move forward in unanimity in support of this bill. And it seems like such a simple thing, a simple gesture, and it was agreed to, and it seems so abundantly desirable in the light of the criticism that has been focused on this point that I don't see how you can work up any question in the area you are developing.

Mr. JOHNSON. Would you agree to this point, thought, that in order to make that selection, that they agree to do all their rediscounting with the Intermediate Credit Bank?

Mr. HALL. I don't think we would agree to this at all.

Mr. JOHNSON. If you want to put them in the same position why don't you make them take the same terms?

Mr. HALL. In effect, this sort of restriction would put them into liquidation. It would be putting them out of business. There would be no reason to have a State chartered cooperative association to do this kind of business. They would all fold up and go join up with the PCA's. Surely we don't want to promote a program in which we are going to limit such businesses in this way. That isn't desirable.

Mr. POAGE. I take it that the reason you propose to give these people preferred status is because they are cooperatives; is that right?

Mr. HALL. Because they are cooperatives, and they fit the pattern of PCA's. They have done business of the same kind.

Mr. POAGE. If they want to fit the pattern, let them get in the pattern, the law is clear how they can fit the pattern; the PCA's are cooperative, aren't they?

Mr. HALL. Sure.

Mr. POAGE. Then why would you say that one group of cooperatives should enjoy free wheeling and that the other group of cooperatives should be subject to inspection, examination requirements as to where they get their credit—why should you make that distinction and give in fact advantage to the people who did not build this thing?

Mr. HALL. They are part of the group.

Mr. POAGE. Aren't they the overwhelming part of it?

Mr. HALL. They have done the greatest percentage of business, if that is what "overwhelming" means, but they are part of it.

Mr. POAGE. Then you would relegate those people that have built up most of this surplus to an unfavorable position and take another group and give them a more favorable position?

Mr. HALL. I can't see that it is more favorable at all.

Mr. POAGE. If it isn't, why don't you accept what Mr. Johnson says; why don't you accept the same obligations that the PCA's accept?

Mr. HALL. The obligation of supervision, I daresay—

Mr. POAGE. I didn't ask you about supervision.

Mr. HALL. That is the usual thing.

Mr. JOHNSON. I asked you about rediscount, if they wanted to come in, make them rediscount the same as the PCA's.

Mr. HALL. Make them rediscount on an exclusive basis?

Mr. POAGE. That is right.

Mr. HALL. Well, as I say, I think the answer to that is this, and I will say it again, if you make them rediscount here exclusively, then they haven't any basis for being in existence except as a PCA, and the only alternative for them is to go and liquidate themselves.

Mr. POAGE. That is what we have been saying, if they are to be PCA's, let them be PCA's.

Mr. HALL. Well, now, these institutions were in the business long before the PCA's came into being under the Federal laws.

Mr. POAGE. And nobody is suggesting that they shouldn't have the right to discount their paper.

Mr. HALL. That is right.

Mr. POAGE. All right, they didn't have that right before the law came along. We say, if you want to rediscount your paper here you can come in and do it just like the National Production Corporation of Fort Worth, Tex., if you don't want to do it you don't have to do it. If you don't want to do it, go borrow your money somewhere else, but if you want to comply with our regulations and be a part of us, comply with them, and get in with the rest of them. How many of these people do you want to set up in this specially favored group?

I understand from the testimony this morning that there are some ninety-odd corporations rediscounting with the Federal intermediate-credit banks which are not PCA's.

Mr. HALL. That is right.

Mr. POAGE. How many of them are to be put in this favored group?

Mr. HALL. Of that group, how many of them are cooperatives? I think it is around 25.

Mr. TOOTELL. I think that is about right.

Mr. HALL. Around 25 of them.

Mr. POAGE. Will you insert the list of them by name and location in the record?

Mr. HALL. I would have to get it.

Mr. POAGE. I am not asking you to do it at the moment.

Mr. HALL. I am told that it can be done.

(The data requested above is as follows:)

OTHER FINANCING INSTITUTIONS DISCOUNTING WITH FICB'S

FICB OF SPRINGFIELD

(a) OFI's affiliated with cooperatives:

1. Central Jersey Farmers Cooperative Credit Association, Inc., Hightstown, N. J.
2. Cranberry Credit Corp., Hanson, Mass.
3. Federation Agricultural Credit Corp., Caribou, Maine.
4. Hi-Test Farm Credit Corp., 422 Maine Street, Presque Isle, Maine.
5. M. P. G. Credit Corp., Presque Isle, Maine.

(b) Banks: None.

(c) OFI's affiliated with banks:

1. Aroostock Trust Credit Corp., Caribou, Maine.
2. Ashland Agricultural Credit Corp., Ashland, Maine.
3. First Agricultural Credit Corp. and Fort Agricultural Credit Corp., Box 611, Fort Fairfield, Maine.
4. Growers Agricultural Credit Corp. and Northern Agricultural Credit Corp., Presque Isle, Maine.
5. Washburn Agricultural Credit Corp., Washburn, Maine.

(d) OFI's owned by private interests other than banks:

1. Farmers Agricultural Credit Corp., 429 Main Street, Presque Isle, Maine.

FICB OF BALTIMORE

(a) OFI's affiliated with cooperatives:

1. Coopertiva Refaccionaria Lafayette, Arroyo, P. R.
2. Cooperativa Refaccionaria Los Canos, Arecibo, P. R.
3. Puerto Rico Agricultural Loans, Inc., Ponce, P. R.

(b) Banks :

1. Banco Credito y Ahorro Ponceño, Ponce, P. R.
2. Banco de Ponce, Ponce, P. R.

(c) OFI's affiliated with banks : None.

(d) OFI's owned by private interests other than banks :

1. Cooperativa Refaccionaria de Colonos de las Centrales Soler y Riollano, Arecibo, P. R.

FICB OF COLUMBIA

(a) OFI's affiliated with cooperatives :

1. Hastings Agricultural Credit Corp., Hastings, Fla.

(b) Banks :

None.

(c) OFI's affiliated with banks :

None.

(d) OFI's owned by private interests other than banks :

1. Four County Agricultural Credit Corp., Dunn, N. C.
2. Loris Agricultural Credit Corp., Loris, S. C.
3. Farmers Credit Company, Atlanta, Ga.

FICB OF LOUISVILLE

(a) OFI's affiliated with cooperatives :

1. Farm Bureau Agricultural Credit Corp., Columbus, Ohio
2. Producers Live Stock Credit Association, Columbus, Ohio.

(b) Banks :

None.

(c) OFI's affiliated with banks :

None.

(d) OFI's owned by private interests other than banks :

1. Tucker Agricultural Credit Corp., Ripley, Tenn.
2. Southern Agricultural Credit Corp., Memphis, Tenn.
3. Tri-State Agricultural Credit Corp., Memphis, Tenn.
4. Memphis Cotton Discount Corp., Memphis, Tenn.

FICB OF NEW ORLEANS

(a) OFI's affiliated with cooperatives :

1. Staple Cotton Discount Corp., Greenwood, Miss.

(b) Banks :

None.

(c) OFI's affiliated with banks :

None.

(d) OFI's owned by private interests other than banks :

1. State Agricultural Credit Corp., Inc., 837 Whitney Bldg., New Orleans, La.
2. Planters Cotton & Cattle Credit Corp., Prairie, Ala.

FICB OF ST. LOUIS

(a) OFI's affiliated with cooperatives :

1. Arkansas Farm Bureau Finance, Inc., Box 67, University Station, Fayetteville, Ark.
2. Farmers Finance, Inc., Box 238, Bentonville, Ark.
3. Farmers Union Credit Association, South St. Joseph, Mo.
4. Producers Live Stock Credit Corp., 139 North Clark St., Chicago, Ill.

(b) Banks :

None.

(c) OFI's affiliated with banks :

1. Atchison County Agricultural Credit Corp., Rock Port, Mo.

(d) OFI's owned by private interests other than banks :

1. D and D Live Stock Loan Co., National Stock Yards, Ill.
2. Livestock Mortgage Credit Corp., 608 South Dearborn St., Chicago, Ill.

FICB OF ST. PAUL

(a) OFI's affiliated with cooperative :

1. Midland Credit Corp., Minneapolis, Minn.

(b) Banks : None.

(c) OFI's affiliated with banks:

1. Farm Credit Co., Cooperstown, N. Dak.
2. Swift County Agricultural Credit Association, Benson, Minn.
3. Cambridge Credit Co., Cambridge, Minn.
4. Kanabec Credit Co., Mora, Minn.
5. Peoples Credit Co., Plainview, Minn.
6. Tri-County Credit Co., Stewart, Minn.
7. Windom State Credit Co., Windom, Minn.

(d) OFI's owned by private interests other than banks:

1. Livestock Credit Co., Jamestown, N. Dak.
2. Agricultural Credit Co., Cambridge, Minn.
3. Farmers Credit Co., Claremont, Minn.
4. Northern Credit Co., Detroit Lakes, Minn.
5. Milaca Farm Credit Co., Milaca, Minn.
6. Farmers Agricultural Credit Association, Montevideo, Minn.
7. Miller-Harrington Agency, Inc., Plainview, Minn.
8. Dairy Valley Credit Co., Ashland, Wis.
9. Colfax Dairy Credit Co., Colfax, Wis.
10. Central Wisconsin Cattle Credit Co., Fond du Lac, Wis.
11. Badger State Credit Co., Greenwood, Wis.
12. Southern Wisconsin Cattle Credit Co., Madison, Wis.
13. Agricultural Loans Inc., Wausau, Wis.

FICB OF OMAHA

(a) OFI's affiliated with cooperatives:

1. Farmers Union Live Stock Cooperative Credit Co., Omaha, Nebr.
2. Producers Livestock Credit Corp., Denver, Colo.

(b) Banks: None.

(c) OFI's affiliated with banks:

1. Farmers Credit Corp., Indianola, Iowa
2. Greene County Agricultural Credit Co., Jefferson, Iowa
3. Tri-County Agricultural Credit Corp., Zearing, Iowa

(d) OFI's owned by private interests other than banks:

1. Omaha Feeder Credit Corp., Omaha, Nebr.
2. Rosebud Cattle Loan Co., Winner, S. Dak.

FICB OF WICHITA

(a) OFI's affiliated with cooperatives:

1. National Live Stock Credit Corp., 125 Livestock Exchange Bldg., Oklahoma City, Okla.

(b) Banks: None.

(c) OFI's affiliated with banks: Commerce Agricultural Loan Co., Clayton, N. Mex.

(d) OFI's owned by private interests other than banks: None.

FICB OF HOUSTON

(a) OFI's affiliated with cooperatives:

1. National Finance Credit Corporation of Texas, 119 East Exchange Avenue, Fort Worth 6, Tex.

(b) Banks: None.

(c) OFI's affiliated with banks: None.

(d) OFI's owned by private interests other than banks:

1. Agricultural Livestock Finance Corp., 1102 Burk Burnett Building, Fort Worth 2, Tex.
2. Commercial Cattle Loan Co., 306 Travis Building, San Antonio 5, Tex.
3. Del Rio Wool & Mohair Co., Del Rio, Tex.
4. Producers Wool & Mohair Co., Del Rio, Tex.
5. Wool Growers Central Storage Co., San Angelo, Tex.
6. Houston Agricultural Credit Corp., 903 Milam Building, Houston, Tex.
7. San Antonio Agricultural Credit Corp., National Bank of Commerce Building, San Antonio 5, Tex.
8. Producers Loan Co., Childress, Tex.

FICB OF BERKELEY

- (a) OFI's affiliated with cooperatives :
 1. Hayward Poultry Producers Federal Credit Union, Post Office Box 89, Hayward, Calif.
 2. Poultry Producers Federal Credit Union, 840 Battery Street, San Francisco 11, Calif.
 3. Producers Livestock Loan Co., 1st Security Bank Building, Salt Lake City 1, Utah.
 4. Tri-State Livestock Credit Corp., 785 Market Street, San Francisco 3, Calif.
- (b) Banks : None.
- (c) OFI's affiliated with banks : None.
- (d) OFI's owned by private interests other than banks :
 1. Arizona Stockmen's Loan Co., 102 Mayer-Heard Building, Phoenix, Ariz.
 2. J. G. Boswell Farm Loan Co., 510 South Spring Street, Los Angeles, Calif.
 3. California Cattle Security Co., Ltd., 135 North Glendale Avenue, Glendale 6, Calif.
 4. California Cotton Credit Co., 2301 East 52d Street, Los Angeles, Calif.
 5. Casa Grande Cotton Finance Co., Post Office Box 995, Casa Grande, Ariz.
 6. Dairymen's Security Co., Post Office Box 667, Bellflower, Calif.
 7. Producers Cotton Credit Co., Post Office Box 1984, Phoenix, Ariz.

FICB OF SPOKANE

- (a) OFI's affiliated with cooperatives :
 1. Apple Growers Agricultural Credit Corp., Hood River, Oreg.
 2. Hortunion Credit Corp., Yakima, Wash.
- (b) Banks : None.
- (c) OFI's affiliated with banks :
 1. Northern Livestock Loan Co., Havre, Mont.
- (d) OFI's owned by private interests other than banks :
 1. Wool Growers Service Corp., Yakima, Wash.

Mr. LYNN. Mr. Poage, we have had considerable complaint about this bill with regard to this particular point. We know it is hard to foresee in the future where it might be applicable, but we are not for any discrimination against these 24 or more cooperative associations who are serving farmers.

Mr. POAGE. Oh, no; I don't want to discriminate against them either. But I don't know why we should discriminate for them. We are just asking you not to discriminate, period.

Mr. LYNN. Well, we present this as a proposed amendment to the bill, we hope that after thorough study—and we would be happy to submit additional evidence that we can get together for your consideration in this, because we do believe that it is a problem out in the country, and we thought it was only right that we bring this before you. We called a special meeting of our executive committee to consider these proposals that have been made from the several States and other financial institutions.

Mr. POAGE. Mr. Lynn, we of course appreciate your offering those suggestions. I certainly don't want to be in a position of condemning you for offering them, for I think it is a problem, and it should be discussed, and I think you are exactly right in bringing them before us. But we do want to go into this, we don't want to shut it off now and go into it at some other time, because we want to make a decision. We want to know why you think we should set up a new and separate group. There are only two groups that can borrow from the intermediate credit bank.

Mr. LYNN. Yes.

Mr. POAGE. That would be true if we adopt this amendment.

Mr. LYNN. I started out, Mr. Poage, by saying that I am not an expert in this field, and I don't claim to be able to answer your questions. And I can't make it any clearer than that, and that is the reason I brought Mr. Hall. If this was the farm program I could do it pretty well, I think, but my only experience with credit is in the borrowing end of the thing.

Mr. POAGE. Are there any further questions?

Mr. DIXON. I would like to say, Mr. Chairman, that that is the part of the bill that worries me. And we have some well established OFI's that have the answer, and I hope we can get some solution.

Mr. JOHNSON. That is the reason I was making the suggestion that they agree to do some rediscounting and take some of these restrictions in order to come in.

Mr. LYNN. That might be a solution of the thing. We don't know.

Mr. POAGE. We are just suggesting, Mr. Lynn, that we ought not to have discrimination. We are not saying you oughtn't to have discrimination—of course, we oughtn't to have discrimination against these people, we fully agree with that, but you oughtn't to have discrimination.

Mr. LYNN. That is all we are asking.

Mr. POAGE. If there are no further questions, we thank you very much.

Now, we have one more name on the list, Mr. John J. Riggle, of the National Council of Farm Cooperatives.

Mr. Riggle, I am just wondering if you are for or against the bill, and how long you wanted to talk.

Mr. RIGGLE. We have a statement, I imagine it would take 10 or 15 minutes.

Mr. POAGE. And it will probably evoke some questions, won't it?

Mr. RIGGLE. It probably will.

Mr. POAGE. Then suppose we put it off until tomorrow morning. We don't want to cut you off, please understand. We will hear you, and tomorrow morning we will hear the opponents of the bill.

The committee will now stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 5:20 p. m., the committee adjourned, to reconvene at 10 a. m., April 20, 1956.)

FARM CREDIT

FRIDAY, APRIL 20, 1956

HOUSE OF REPRESENTATIVES,
CONSERVATION AND CREDIT SUBCOMMITTEE OF THE
COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10 a. m. in the committee room of the Committee on Agriculture, room 1310, House Office Building, Hon. W. R. Poage (subcommittee chairman) presiding.

MR. POAGE. The committee will come to order.

We had thought we would dispose of all witnesses who were here in favor of the legislation last night. However, there were 1 or 2 who were absent at the time we called them and who are back this morning.

I have listed here as holdovers from yesterday Mr. Mitchell Kane and Mr. H. C. Blalock. Is Mr. Kane here?

(Someone in audience replied: "No, sir, Mr. Kane did not come.")

MR. POAGE. He will not be here, then?

(Same person in audience replied, "No, sir.")

MR. POAGE. Is Mr. H. C. Blalock here?

MR. BLALOCK. Yes, sir.

MR. POAGE. Mr. Blalock, let me ask you, how long a statement do you have?

MR. BLALOCK. Just about 3 or 4 minutes.

MR. POAGE. Mr. John Riggles, we called you yesterday, but I would like to be clear, which side are you on, Mr. Riggles? I never was sure.

MR. RIGGLES. I am in between, I guess.

MR. POAGE. In between?

MR. RIGGLES. Yes, sir.

MR. POAGE. How long is your statement?

MR. RIGGLES. About 10 or 12 minutes.

MR. POAGE. Now is there anyone else here who is in favor of the bill?

MR. HALVERSON. Mr. Chairman, I had a conflict yesterday.

MR. POAGE. What is your name?

MR. HALVERSON. Lloyd Halverson, National Grange.

MR. POAGE. How long a statement do you want to make?

MR. HALVERSON. About 12 minutes.

MR. POAGE. We will have to put that off until this afternoon.

Is there anyone else who wants to speak in favor of the bill?

MR. HAMBRIGHT. W. A. Hambright, South Carolina.

MR. POAGE. How long do you want to talk?

MR. HAMBRIGHT. Three or four minutes.

MR. POAGE. You are listed as an opponent.

MR. HAMBRIGHT. That is a mistake, sir.

MR. POAGE. All right, I am glad.

I believe Mr. Hauenstein has a telegram he wants read into the record.

Mr. HAUENSTEIN. Yes, sir.

Mr. POAGE. It looks like we have three short witnesses in favor of the bill and I wonder if it might not be well to dispose of them, then I think we would be in a better position to proceed with the opposition.

Suppose you read your telegram the first thing, Mr. Hauenstein.

**STATEMENT OF B. L. HAUENSTEIN, FREEPORT, ILL., REPRESENTING
ILLINOIS PRODUCTION CREDIT ASSOCIATIONS**

Mr. HAUENSTEIN. My name is B. L. Hauenstein, of Freeport, Ill. The telegram received from the Illinois Production Credit Associations is as follows:

(The telegram read by Mr. Hauenstein is as follows:)

B. L. HAUENSTEIN,
Care Continental Hotel,
Washington, D. C.

ST. LOUIS, Mo., April 20, 1956.

Retel following is a resolution adopted by conference of directors of Illinois Production Credit Associations at Springfield, Ill., on April 12, 1956, no dissenting votes. "Resolved, That this conference does hereby approve, endorse and support H. R. 10285 and S. 3549, now pending in the Congress of the United States and dealing with the proposed merger or consolidation of the Production Credit Corporation and Federal intermediate credit banks: That the representative of this district on PCA National Advisory Committee be authorized and requested on behalf of this conference to lend active support to such legislation." Then the conference by majority vote further resolved to urge that appropriate action be taken in the committees of Congress to change the name of the merged or consolidated institution to Production Credit Bank of blank, the name to include the name of the city in which the principal office of the institution is located.

ILLINOIS PRODUCTION CREDIT ASSOCIATIONS.

Mr. POAGE. Thank you very much.

We will now call on Mr. Blalock.

**STATEMENT OF H. C. BLALOCK, REPRESENTING THE SECOND FARM
CREDIT DISTRICT ON THE NATIONAL ADVISORY COMMITTEE OF
PCA's AND VIRGINIA FARM BUREAU FEDERATION**

Mr. BLALOCK. I am H. C. Blalock. I am representing the Second Farm Credit District on the National Advisory Committee of PCA's, and I am president of the Virginia Farm Bureau Federation.

We have gotten information around and talked with the associations or gotten in contact with the associations throughout the Second Farm Credit District, and production credit associations throughout the district are in favor of this legislation.

As far as our Virginia Farm Bureau Federation, our membership throughout Virginia are very much in favor of this legislation, and we would hope that you could see fit to pass the Cooley bill, H. R. 10285. So far as I know there has been no opposition in any section anywhere in the Second Farm Credit District. I sent notice of these bills to all the production credit associations in the Second Farm Credit District and asked them particularly if there was any opposition or any points that they wanted to disagree with in the bill to let me know, and I did not hear from a single one opposing or raising any

question to the bill. However, although I did not ask them to let me know if they were in favor, I had a number of replies saying they were in favor and would help in any way they could to support the bill.

Mr. POAGE. Thank you, Mr. Blalock.

Any questions?

If not, we appreciate your statement.

Mr. BLALOCK. Thank you, sir.

Mr. POAGE. Now I want to call Mr. Hambright.

STATEMENT OF W. A. HAMBRIGHT, SECRETARY-TREASURER OF THE SPARTANBURG PRODUCTION CREDIT ASSOCIATION

Mr. HAMBRIGHT. Mr. Chairman, my name is W. A. Hambright. I am secretary-treasurer of the Spartanburg Production Credit Association. I would like to file a copy of my statement and make some remarks about what I have to say.

I might say that I am a farmer and a member of a PCA also. In the first place I should like to express our appreciation for the opportunity of appearing before this committee. I am here representing the South Carolina federation in the capacity of its secretary-treasurer.

We are here in behalf of the 21 PCA's in South Carolina to register our support of H. R. 10285.

However, we are opposed to the enactment of certain parts of S. 3550—and we presume, as you stated yesterday, a similar bill will be introduced in the House—because we believe that certain proposals in this bill are detrimental to the welfare of the production credit system, and jeopardize the plan of making the intermediate credit banks completely farmer owned.

You will recall that in last year's testimony on the proposals that were brought before this committee, it was brought out that perhaps the grassroots thinking of the farmers had not been sought. I would like to bring out at this time that at the request of our Board, district meetings were held, and in December of last year, in Columbia, S. C., a districtwide meeting was held for directors and secretary-treasurers comprising the 87 PCA's in the Third Farm Credit District, for the principal purpose of discussing the proposals contained in H. R. 10285 and obtaining the grassroots thinking of our directors.

We had 2-day meeting, during which time a thorough explanation was made of the proposals. The meeting then split up into State groups for further consideration of the principles contained in the measure, and on the following day they reconvened and voted unanimously to support the provisions of the bill. We believe that the bill represents the thinking of the majority of the directors and officers of the production credit system.

I would like to call your attention to the fact that the first part of section II of the Farm Credit Act of 1953 contains a very significant declaration of policy. I will read just two lines:

It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit * * *.

That, in particular, is what we are interested in. We like this policy statement and we want to see it activated and its objectives accom-

plished. We think this bill, H. R. 10285, proposes to carry out these objectives and proposes to merge the production credit corporations in Federal intermediate credit banks, and to facilitate farmer ownership of the merged banks and retirement of Government capital therein.

The proposal to merge these institutions makes good sense to us. It should promote efficiency within the system and lower the expense of supervision to the associations. That is a matter that has been giving us much concern.

We are opposed to the enactment of S. 3550, page 5, line 19, which in effect would reduce the revolving fund of the 12 Federal intermediate credit banks from \$100 million to \$70 million. We believe that with the proposed merger effected the revolving fund may be needed and that it should remain at \$100 million.

We are also opposed to the language on page 12, lines 23 to 25, which would have the effect of giving the Federal Government a continuing interest in the surplus and reserves of the credit banks after all Government capital has been retired. We think the surplus should be retained in the system because Congress has already set a precedent for leaving surplus in the Federal land bank, in the act of 1955.

Then, too, on page 23 of S. 3550 we oppose the language under subsection (A) which combines into a single subsection the subsections (a) and (b) of section 201 of H. R. 10285. The effect of this change would be to keep the intermediate credit banks subject to the budget provision of the Government Corporation Control Act until the last dollar of Government capital is retired. Once the merger is effected, and when the PCA's buy stock in it, it becomes a mixed ownership corporation, and we do not feel, after 22 years of experience, that we need to be under the control of the Corporation Control Act.

Mr. Chairman, we hope that the Congress will enact the proposed legislation contained in H. R. 10285 and other identical bills which have been introduced. We believe the end result of this act is designed to provide agriculture with a permanent source of credit and to enable PCA's to ultimately own the Federal intermediate credit banks, which was the original intent of the Congress as set forth in section II of the Farm Credit Act of 1953.

We wish to thank you for this privilege, Mr. Chairman.

Mr. POAGE. We thank you very much.

(The following statement was submitted by the witness:)

STATEMENT OF W. A. HAMBRIGHT, SPARTANBURG PRODUCTION CREDIT ASSOCIATION

My name is W. A. Hambright, secretary-treasurer of the Spartanburg Production Credit Association, and I am also a farmer residing in Cherokee County. Mr. E. B. Sanders, president of the South Carolina Federation of PCA's has requested that I appear here representing our State federation in the capacity as its secretary-treasurer. Mr. Sanders asks that I express his regrets in his inability to be here at this hearing.

We deeply appreciate the opportunity to appear before this committee to express our views on this important subject.

We are here in behalf of the farmers who own the 21 PCA's in South Carolina in support of bill H. R. 10285.

We are here to oppose the enactment of certain parts of bill S. 3550, because, in our opinion, certain proposals in this bill are detrimental to the welfare of the production-credit system, and jeopardize the plan of making the intermediate credit banks completely farmer owned.

On December 1 and 2, 1955, a districtwide meeting for directors and secretary-treasurers comprising the 87 PCA's in the Third Farm Credit District was held

in Columbia, S. C. It should be emphasized that this was a 2-day meeting held for the purpose of discussing the proposals of the principles contained in bill H. R. 10285, and for obtaining the grassroot thinking from directors throughout the district. After a day's explanation and discussion of the bill the meeting split up into State groups for further consideration of the principles contained in this bill, then on the following day reconvened and voted unanimously to support the principles contained in Mr. Cooley's bill 10285.

We believe that this bill represents the majority of the thinking of the directors and officers of the production-credit system. At the suggestion of our Federal Farm Credit Board, the Governor and his staff conducted a hearing in each of the 12 farm credit districts during the latter part of the year 1955. At these meetings opportunity was given for free expression of thought concerning the proposed legislation. We believe this bill represents a sincere effort to reconcile many differing points of views found in associations throughout the Nation, and other financing institutions using the services of the credit banks.

Section II of the Farm Credit Act of 1953 states the policy and intent of the Congress with respect to the management, control, and ownership of the farm credit system. It reads:

"SEC. 2. It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this act shall be construed in keeping with this policy. The Federal Farm Credit Board hereinafter provided for shall within 1 year after appointment make recommendations to the Congress of means, supplemental to those provided by this act, of carrying into effect such declared policy, including, but not limited to, means of increasing borrower participation in ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, production credit corporations, Central Bank for Cooperatives, and regional banks for cooperatives may be retired."

We like this policy statement and want to see it activated and its objectives accomplished.

The declared policy of H. R. 10285 proposes to carry out these objectives and significantly proposes to merge the production credit corporations in Federal intermediate credit banks, and to facilitate farmer ownership of the merged banks and retirement of Government capital therein.

The proposal to merge these institutions makes good sense to us. It should promote efficiency within the system and lower the expense of supervision to the associations.

We are opposed to the enactment of S. 3550, page 5, line 19, which, in effect, would reduce the revolving fund of the 12 Federal intermediate credit banks from \$100 million to \$70 million. We believe that with the proposed merger effected, the revolving fund may be needed and that it should remain at \$100 million.

Also, we are opposed to the language on page 12, lines 23 to 25, which would have the effect of giving the Federal Government a continuing interest in the surplus and reserves of the credit banks after all Government capital has been retired. We think the surplus should be retained in the system because Congress has already set a precedent for leaving surplus in the Federal land bank. A second reason is that much of the surplus of the production credit corporations was earned in this manner: In the early days of the associations they owned 4 percent Government securities. Under an agreement that the corporation invested this money into the associations, in those early days, they had a bond repurchase agreement which gave them authority to do this, which they did. They told us that they were going to sell our 4-percent securities because they were at a high premium. The corporation took the profits of that, and gave to the associations, eventually, 2½ percent securities.

A considerable amount of money was made on this transaction, and that is a part of that surplus. We think that surplus rightfully belongs to our associations, our farmer members. Since the Congress has treated the Federal land bank as they did with respect to the surplus, we think that the farmer members own the surplus in the corporations, and therefore, think that this surplus should remain in the system.

We think it is important that the surplus be left as a cushion to help defray expenses of administration and supervision. We think the Farm Credit Act is good, it is important to agriculture, but the Farm Credit Administration is not

serving its intended purpose unless adequate provisions are made to enable PCA's to extend credit to the farmers at a reasonable cost. The overall cost of money to farmers in our association is now approximately 8 percent. We think that is too high.

Then, on page 23 of S. 3550, we oppose the language under subsection (a) which combines into a single subsection the subsections (a) and (b) of 201 of bill H. R. 10285. The effect of this change would be to keep the intermediate credit banks subject to the budget provision of the Government Corporation Control Act until the last dollar of Government capital is retired.

We hope that the Congress will enact the proposed legislation contained in bill H. R. 10285 and other identical bills which have been introduced. We believe that the end result of this act is designed to provide agriculture with a permanent source of credit and to enable PCA's to ultimately own the Federal intermediate credit banks, which was the original intent of the Congress as set forth in section II of the Farm Credit Act of 1953.

Mr. POAGE. Now we will start with the opponents and we will come back to any proponents who have not been heard. We are not trying to cut anybody off, but these discussions always take longer than expected.

We will start with Mr. Downie.

Mr. HOPE. Mr. Chairman, before Mr. Downie proceeds, I would like to point out that he is no stranger to the committee. He has been before this committee on previous occasions and I am sure all members of the committee are glad to have him back again. He is a past president of the Kansas Bankers Association and one of the leading citizens of our State, as well as a man who has worked very assiduously toward obtaining better cooperation between bankers and farmers. I am sure whatever he has to say this morning will be helpful to the committee.

Mr. POAGE. We are always glad to have Mr. Downie before us.

Mr. DOWNIE. Thank you, Mr. Hope and Mr. Chairman, for this gracious introduction.

Mr. POAGE. Just proceed, Mr. Downie. I will ask the witnesses, not only Mr. Downie but those who follow him, to please start with your statement and do not wait until we have passed out the copies to the members of the committee.

STATEMENT OF R. N. DOWNIE, REPRESENTING THE AMERICAN BANKERS ASSOCIATION

Mr. DOWNIE. My name is R. N. Downie. I am president of the Fidelity State Bank, Garden City, Kans., and chairman of the Agricultural Credit Committee of the American Bankers Association. This statement is made on behalf of the association.

The Nation's banks extend more credit to farmers for production purposes than any other lending agency. At the beginning of 1956, banks held \$3,249,541,000 in production loans, while the production credit associations held \$653,478,000 and the Farmers' Home Administration held \$392,191,000. The members of the American Bankers Association, representing over 98 percent of the Nation's banks, number among their customers the vast majority of the farmers in the United States. We are, therefore, deeply interested and concerned in legislation affecting farm credit.

We are generally in sympathy with the objectives of H. R. 10285 and the other similar bills on this subject to facilitate farmer ownership of cooperative credit institutions and retirement of Government

capital therein. These proposals would eliminate overlapping authority and some other undesirable features of the present Farm Credit Administration short-term agencies. There are, however, important provisions of the bills with which we are not in accord.

RETIREMENT OF GOVERNMENT CAPITAL

Our association has long recognized the right of farmers and others to organize cooperative businesses, including credit institutions. At the same time, we have consistently maintained that it is not the function of Government to provide free capital or other subsidies to these cooperatives which are, after all, organized for the benefit of special groups. Accordingly, it has long been our view that when free Government capital has been provided for cooperative agencies, it should be returned in the shortest possible time. As the Government strives to reduce expenditures and to achieve a balanced budget, every user of Government capital should recognize the need for immediately returning to the Treasury every dollar possible. The provisions for the return of Government capital contained in these bills are inadequate, and there is no provision whatsoever for return of surplus earned with Government funds.

Under the terms of these bills, only the capital of the Production Credit Corporation transferred to the Federal intermediate credit banks, amounting to \$31.5 million according to the September 30, 1955, figures shown in the Treasury Bulletin for January 1956, would be returned to the Treasury in the form of miscellaneous receipts. The balance of \$60 million would be paid into a revolving fund from which the Governor of the Farm Credit Administration at his discretion could supply additional Government capital through future subscriptions to class A stock of the banks. We believe it is contrary to sound Government fiscal policy to earmark funds to supply Government capital at some future date. Agencies in need of additional capital should be required to go before the Congress to justify the need for such funds and provide an opportunity to study and appraise their operations. We recommend that all proceeds of class A stock retirements be paid into the Treasury as miscellaneous receipts.

REPAYMENT OF SURPLUS

While the bills before this committee provide for eventual retirement of Government capital of these agencies, they make no provision for the return to the Government of the \$2.4 million in paid-in surplus of the Federal Intermediate Credit Banks or the combined earned surplus of the two agencies of \$63.5 million.

These amounts represent Government investment in these two agencies created as the result of the use of Government capital without charge. These surplus funds rightfully belong to the Government. We believe that provision should be made for the prompt repayment to the Treasury of these surplus funds.

EXPENSE OF PCA SUPERVISION

These bills propose that the income derived from the surplus transferred from the Production Credit Corporations should be used to pay

the expenses of the Federal Intermediate Credit Banks in providing supervision and assistance to the Production Credit Associations. We fail to see why the PCAs should not pay for their supervisory services as do other financial institutions.

It is interesting to note that the Comptroller General of the United States in his report on audit of corporations of the Farm Credit Administration for the fiscal year ending June 30, 1954, made the recommendation—

that the Congress consider requiring the production credit associations to pay the cost of their supervision, which is now being paid by the production credit corporations.

In support of this recommendation, the report states that—

We believe that the production credit system, assisted by the Federal Government since 1933, has now become firmly established and should be more nearly self-supporting and that the supervision of the associations is a form of direct service, the cost of which should be borne by the associations.

FRANCHISE TAX

The bills continue the present requirement that the Banks pay a franchise tax to the Treasury, although application of earnings is somewhat changed. We have repeatedly taken the stand that the cooperative agencies of the Farm Credit Administration which have Government capital should reimburse the Treasury for the use of that capital on a basis at least comparable with the cost of the funds to the Treasury. The provision for the franchise tax contained in these bills is inadequate to attain the objective. We believe that the Federal Intermediate Credit Banks as business enterprises have reached a stage of development where they have no need for further subsidy.

Generally, taxes are considered a fixed charge against earnings as a current operating expense, yet under the provisions of these bills the franchise tax will be payable only out of earnings remaining after certain amounts are set aside to restore capital impairments and to create and maintain surplus and reserve accounts. Even then, this tax will be further limited to not more than 25 percent of remaining earnings. We recommend that these provisions be amended to require the Federal Intermediate Credit Banks to pay as a first charge against their earnings an amount on their Government capital equal to the cost of funds to the Treasury.

TREATMENT OF RESERVES

According to the 1954-55 Annual Report of the Farm Credit Administration, the Federal Intermediate Credit Banks, as of June 30, 1955, had a combined reserve for contingencies of \$18,475,000. Under the bills now being considered each bank would establish a new surplus account by consolidating its present reserve for contingencies with its present surplus account and the surplus of the production credit associations transferred to the bank. When this provision is considered with the provision for the annual application of earnings which apparently contemplates the building up of a new reserve account from scratch by setting aside 25 percent of annual earnings remaining after making good any impairment of capital and surplus until such reserve account equals 25 percent of outstanding capital stock and participa-

tion certificates, it would appear to have the effect of greatly extending the period before final retirement of class A stock by reducing the amount of earnings available for patronage dividends in the form of class B stock and participation certificates. We recommend that the present reserve for contingencies be retained as a part of the reserve account of the banks in order that the maximum reserve of 25 percent of outstanding capital stock and participation certificates be reached more quickly, which would sooner make available a larger portion of annual earnings to be applied to patronage dividends in the form of class B stock and participation certificates.

We appreciate this opportunity of presenting our views on this important legislation. We have endeavored to take a constructive approach in offering our recommendations for changes in these bills. We believe that the changes we have proposed are consistent with the principles set forth in the "Declaration of Policy" contained in the bills and at the same time will aid the Government in achieving its fundamental aims of a balanced budget and reduction of the Federal debt. We sincerely hope that our recommendations will merit your careful consideration.

Mr. POAGE. Mr. Downie, we do appreciate your suggestions. I find myself in the position of not knowing much of the background of the matter. I think the basic question revolves around the morality of giving to these banks the earnings on capital belonging to the Government. I think that is really the root of the difference of opinion. As I have said, I do not know too much about the background, but am I right in assuming that within the last 2 or 3 years there has been a change in the policy of the Government? Have they not reached the deposits in the national banks in the last 2 or 3 years?

Mr. DOWNIE. You mean Treasury funds deposited in those banks?

Mr. POAGE. Yes.

Mr. DOWNIE. I expect so.

Mr. POAGE. I really had in mind the post offices used to keep substantial balances in these banks.

Mr. DOWNIE. That is right, and they still maintain reasonable balances.

Mr. POAGE. They send it in to centers more often than they used to?

Mr. DOWNIE. That is right.

Mr. POAGE. But even today they do keep some balances in banks all over the country?

Mr. DOWNIE. Chiefly what they call their tax accounts.

Mr. POAGE. The bank with which I am familiar is in Waco, Tex. A great many of the banks advertise the fact they are United States Treasury depositories.

Mr. DOWNIE. I would like the committee to understand we have no unfriendly view or attitude toward legislation which can in our judgment bring about the desired solution which the men in charge of the Farm Administration are so zealously working upon and are so anxious to put into effect. My remarks, if they can be construed as being in opposition, should at least be considered as a tempered approach to what we think are sound, basic contract principles.

Mr. POAGE. I am sure the committee accepts it as such. What I am trying to get at is, knowing as little about banking as I do, I want to be sure I am analyzing this thing reasonably correctly and see if in

my opinion there is a sound basis for your conclusion. I am going to the basis for your conclusion. National banks have for a good long time had a good deal of Federal money on deposit?

Mr. DOWNIE. Yes, sir.

Mr. POAGE. And you have loaned that money?

Mr. DOWNIE. In a very limited way. It is very temporary money.

Mr. POAGE. I know it is temporary money, but you have figured there would be more money next month.

Mr. DOWNIE. As a rule there would be somewhat of an average balance.

Mr. POAGE. I assume, when I go into my bank at Waco and borrow \$1,000, that my banker does not look to see if it is coming out of a deposit made by the Federal Government or by some other depositor.

Mr. DOWNIE. If he is a good banker he calculates his own reserves by setting that aside pretty well. He does not loan much of that money.

Mr. POAGE. I believe the bank I do business with ordinarily carries about \$250,000 of Government money. Let us assume they have an average of \$250,000 of Government money on deposit. Do you not believe they make more loans—I do not mean \$250,000 more—but do you not suppose they let their loans go a little higher than if they did not have that Government money?

Mr. DOWNIE. I do not believe they increase their loans with that money. They might buy Treasury bills.

Mr. POAGE. All right. Let us say they buy Treasury bills. That is Government money on which they are making a profit.

Mr. DOWNIE. They should be making some sort of return.

Mr. POAGE. That is what the PCA's have been doing.

Mr. DOWNIE. They had other people's capital, yes.

Mr. POAGE. And they did not pay the Government interest on it and they used it to make money on it.

Mr. DOWNIE. They used Government capital.

Mr. POAGE. The bank at Waco, Tex., you said did not use Government capital. It is Government money. What is the difference?

Mr. DOWNIE. He did not loan reserves represented by what he owed the Government.

Mr. POAGE. He did not loan 6 times as much as he had on deposit, and I understand these people loan 6 times as much as they have in capital; I understand that.

Do you know whether a national bank follows a different course from a State bank in regard to this Government money?

Mr. DOWNIE. State banks in a general way participate as government depositories, perhaps not as extensively as National banks, but they do. If you will pardon me, I am talking about who provides the capital for national banks and State banks and who provides money for the agencies we are discussing this morning. The Government does not provide this capital.

Mr. POAGE. Mr. Downie, again, it is probably due to my ignorance of the banking business, but is it not true that in the banking business when you loan any money it does not make any difference whether it is a depositor's money or whose money it is, you are just interested in a margin of safety so that the depositors will not have to take any losses?

Mr. DOWNIE. The law provides that.

Mr. POAGE. The law provides that, but what is the reason?

Mr. DOWNIE. The reason is we must capitalize our individual banks in order to safeguard those who entrust their deposits with us. If we have a loss we must charge it not to the depositors but to our capital structure.

Mr. POAGE. So from the standpoint of morality it seems to me there is no difference between the Government money loaned by the PCA's and the Government deposits loaned by your bank.

Mr. DOWNIE. I cannot agree with you at all, Mr. Chairman, because your corporation lending institutions who are provided free Government capital had no investments to begin with. The banks do. You and I and everybody else connected with a bank's organization put our money in it; we pay that in before we are permitted to engage in business.

Mr. POAGE. And before you get a dollar of Government money, let us say you are in a position to make \$1 million of loans. If the Government deposits \$1 million with you, you are able to make more than \$1 million of loans, and you do that; is that not right?

Mr. DOWNIE. Not to a large degree, because the kind of money the Government deposits in the banks is there subject to the immediate demand of the Treasury, and they call for it from day to day.

Mr. POAGE. From time to time I have deposited the little money I have, and it is never there very long. I suppose I draw it out quicker than the Government, yet I know my deposits and John Jones' money make up the money the bank is loaning today.

Mr. DOWNIE. They are loaning depositors' money.

Mr. POAGE. Of course they are loaning depositors' money, and those deposits are demand deposits subject to be drawn out any day, just as is the Government's money.

Mr. DOWNIE. By you and 4,000 others.

Mr. POAGE. The mere fact the United States Government deposits are subject to withdrawal does not mean they are sterilized and cannot be used as a basis for loans. They are used as a basis for loans. You say maybe the banks will go buy securities, but it uses the money for a profit and it makes a profit. I am not condemning any bank for making a profit on the Government's money, but you do not find anything immoral in your using the Government's money to make a profit. What makes it immoral for these people to do the same thing?

Mr. DOWNIE. The Government, for its own convenience, deposits these temporary funds. The banks perform a tremendous daily service for the Treasury, so you have a fiscal policy that goes out, even in our small country banks, to assist day by day in the handling and payment and remittance for taxes collected in a community.

Mr. POAGE. The Congress of the United States decided, rightly or wrongly, that it was in the interest of the United States to have these production lending agencies established.

Mr. DOWNIE. We do not argue that point.

Mr. POAGE. It is beyond the scope of this inquiry as to whether we were originally right or wrong. The United States Government made the decision that it was in the interest of the United States to have these institutions established over the country and put this money out there for that purpose, to have that done; consequently, these Intermediate Credit Banks have been performing, as I see it, a function the Government wanted performed.

Mr. DOWNIE. I only say the Government should be repaid for whatever surplus funds accrued from the use of Government capital without charge.

Mr. POAGE. This capital was set up to serve a public purpose. You can challenge the whole philosophy. I can understand that. It may be that you feel the only function of Government is to take taxes from the people, but I think the Government ought to do something for the people other than taking from them. The Government deposited certain moneys with the banking institutions which enabled them to make more money per dollar than you could make on those deposits. I understand that. I am talking about the fact in each case the money was there not for the benefit of the institution but for the benefit of the United States Government.

Mr. DOWNIE. That is right.

Mr. POAGE. We put it there because we thought it was in the public interest. It being there for the public interest, I do not see why, when we ask them to return the money, it is not comparable to asking your institution to return the money the Government put on deposit there.

In each instance the Government is getting out what it put in. I do not think the Bankers Association would feel the Government was justified in adopting a policy to set these PCA's up in the banking business for Government profit; and yet, if I follow the logic of your reasoning, you said in the first instance you thought this farm credit was good. We go along together that far. Then you said the Government ought to make a profit out of it.

Mr. DOWNIE. I did not say that. Who puts up this money that the Government loaned to these lending agencies?

Mr. POAGE. The taxpayers.

Mr. DOWNIE. All right. For a small group, we will say the agricultural interests, to be set out as a group who are entitled to free treatment as against the millions of other taxpayers and people who engage in private business, I do not think you ought to argue with me that my principles are not sound. When you enter into a contract you should pay not only the contract, but if it cost somebody to enter into the contract you should pay him back. That is just simple honesty.

Mr. POAGE. We come back to what I said before. If you want to object to the establishment of these institutions, you can logically do so. But having adopted the assumption that it is proper for the Government to put this money out there, proper for the Government to put it out without interest, then when it is repaid, why should you place the burden upon these people who are willing to get the Government out of the business and assume the future burdens themselves, a burden you are unwilling to accept in your banking business? You say it is all right so long as we have the Government's money tied up.

Mr. DOWNIE. We have never said that. We have advocated the eventual private ownership by these farmers of these institutions. We are not in disagreement with that. We recognize the right and the privilege of farmers as well as anyone else to organize cooperative agencies to carry on their operations in a more profitable way if it can be done.

All we are doing is pointing out that there is an integrity in our economy which has to do with the value of our dollar, and let us not do something that will make us more left than we are now.

Mr. POAGE. Would you favor having the United States Government charge the banks of the United States who own the Federal Reserve System for the privilege of circulating money, which is using the credit of the United States?

Mr. DOWNIE. No.

Mr. POAGE. You do it without paying a penny for it. When I go into a bank to make a loan all I get is that credit money that you owe to the Federal Reserve System?

Mr. DOWNIE. Of course the Federal Reserve System is capitalized with the capital provided by the member banks and not by the Government. When it was set up a number of millions of dollars of assistance was granted, but that was all paid back, dollar for dollar.

Mr. POAGE. It was set up just like this institution, was it not?

Mr. DOWNIE. Yes; and that is what we argue you should do in this legislation. Let them pay it back on the same basis the Federal Reserve banks paid back their borrowings.

Mr. POAGE. After you pay back your borrowings you have outstanding today \$34 billion, is that it?

What is the outstanding currency of these Federal Reserve banks?

Mr. DOWNIE. I do not know the exact figure. Money in circulation runs about \$30 billion, but I do not know what the currency outstanding is without going to the reference book.

Mr. POAGE. All that is money the Government is furnishing interest free.

Mr. DOWNIE. Oh, no; it is not.

Mr. POAGE. Just a minute.

Mr. JOHNSON. There is one question I would like to ask. When a national bank issues money, what do they put up for security?

Mr. DOWNIE. They do not issue money.

Mr. POAGE. They do through the Federal Reserve System, and the national banks own the Federal Reserve System.

Mr. DOWNIE. The only issuing agency is the Treasury and the Federal Reserve System.

Mr. POAGE. And you own the Federal Reserve System.

Mr. DOWNIE. In the sense of providing the capital.

Mr. POAGE. And you make the profit from it.

Mr. DOWNIE. The profit over and above a certain amount that they use for reserves is paid back into the Government as—you might call it—a franchise tax. They have one proviso in there that the member banks who have stock in the Federal Reserve System are paid not to exceed 6 percent per annum on the amount of stock at \$100 per share that they own.

Mr. POAGE. Six percent is a pretty fair return.

Mr. DOWNIE. But in a little bank with \$100,000 capital, probably \$10,000 to \$12,500 is about all the stock that bank would be even permitted to own in the Federal Reserve System.

Mr. POAGE. I am sure that is true and, by the same token, you might say a fellow probably could not have \$500 stock in a PCA. All I am trying to do is apply the same principle. I am not talking about the same amount.

Mr. DOWNIE. Today, the fine people who own stock in the PCA's, nothing would please them better, and the great majority have already done so; they have retired all Government capital. As to whether

they pay interest for the time they used it is debatable, but they have retired it and now consider themselves rightly the owners of these PCA's.

We have heretofore made the same protest against the PCA's and will do it over and over again. We do not weary in well doing if it is honest. The PCA's had no right to have that capital retired without payment to the Treasury for the time they used it; neither do the banks.

When disease comes along, you do your best to offer remedies. I do not mean there is any disease in these bills we are discussing, but there is an element of what would appear to be a modification of a contract obligation.

When you say to any group, "You do not owe me anything for the capital I advanced you to set up business, but I would be happy to have you repay the amount I loaned you," when you do that, you must consider there are millions of taxpayers who receive no benefits from what we are discussing this morning.

If you keep the dollar real honest in every way and guard it and protect it, you will not have this inflation created by the reckless printing of the currency.

Mr. POAGE. I am inclined to agree with that, but if we are going to do that job I am inclined to think we have to take a close look at the whole national bank system and Federal Reserve System.

Mr. DOWNIE. I think you should. I think all of you should know more about the national banking system.

Mr. POAGE. As far as I can see, they have the same disease you attribute to farm credit institutions.

Mr. DOWNIE. I cannot agree with you.

Mr. POAGE. I am willing to put them all in the hospital and operate on them at the same time, but I do not want to put some in there and segregate the others.

Mr. DOWNIE. You were very kind and considerate in letting me present my statement. I would like to answer any other questions the members of the committee may have. I really enjoy Mr. Poage's remarks very much, but I know I am taking the time of other witnesses.

Mr. POAGE. Any questions?

Thank you very much.

Mr. DOWNIE. Thank you very much, sir.

Mr. POAGE. The next witness I have listed is the National Finance Corp., of Fort Worth, Tex. Is there someone here representing the National Finance Corp., of Fort Worth, Tex.?

(No response.)

Mr. POAGE. The next witness we have listed is Mr. J. W. Sartwelle, of Houston, Tex.

STATEMENT OF J. W. SARTWELLE, HOUSTON, TEX.

Mr. SARTWELLE. Mr. Chairman, may I stand rather than sit down?

Mr. POAGE. Certainly you may.

Mr. SARTWELLE. I would like to present my statement and make a few comments upon it.

Mr. POAGE. Go right ahead.

Mr. SARTWELLE. My name is J. W. Sartwelle, of Houston, Tex., and I am the president of the Port City Stockyards Co., in Houston,

Tex., and in such capacity have close contact with the producers of livestock along the Gulf Coast and eastern section of Texas—and, incidentally, some from Waco—as well as the southwestern portion of Louisiana.

I am a director and vice president of the Houston Agricultural Credit Corporation; a long-time director of the Texas and Southwestern Cattle Raisers Association; founder and past president of the American Brahman Breeders Association and founder and past president for some 18 years of the Houston Fat Stock Show and Livestock Exposition. I mention that, Mr. Chairman, not for any glorification, but to show my interest in agriculture and particularly in the improvement of the livestock situation.

I am also a ranchman, having a ranch in Calhoun, Jackson and Matagorda Counties, Tex., and have an additional small ranch in Lavaca County, Tex., and have been engaged in this business since 1911, although the lands have been in the family for about a century and one-quarter. Some of the lands were granted to my great grandfather by the Mexican Government.

During the early days I have paid interest as high as 13 percent per annum, and have had national banks tell me they would as soon lend money on a school of red fish in the Gulf of Mexico as on a herd of Texas cattle, and in times of tight money and distress, the cattle loan business was confusion confounded.

The passage in the early 1920's by you gentlemen of the Congress, of the law setting up the Federal intermediate credit banks was the most constructive action in the economic history of this country affecting the livestock industry—ending the exorbitant interest rates and the utter confusion in financing which had prevailed before, and putting the livestock loan business on an entirely different basis, method, and foundation. This will go down as one of the great acts of Congress, easily comparable to the law establishing the Federal land bank system.

The record of the several intermediate credit banks, especially the one of Texas, speak for the constructive validity of the system, and their debentures have met a favorable response from investors and now enjoy an acceptance and confidence of which you gentlemen of the Congress, the FICB's, the livestock producers and all of the lending agencies which rediscount with the Federal intermediate credit banks, can be justly proud and thankful.

While the original act setting up the Federal intermediate credit banks was wisely drawn broad enough to encompass all agricultural products, the first efforts of at least the Texas banks were largely that of rediscounting for cattle loan companies and selling debentures based on livestock collateral. And indeed under and through doubts and uncertainties and adverse criticism from some of the former livestock lending agencies, these Federal intermediate credit banks established and gained the confidence of investors in their debentures to such an amazing extent, that although less than 10 years old, they weathered the terrible depression of the early 1930's. They were so well established in the confidence of the investing public that the Government had a paved road on which to launch the production credit corporations and their children, the production credit associations, as well as the bank of cooperatives. This record of the Federal intermediate credit

banks has been so constructive and magnificently solid that you gentlemen of the Congress burdened with the welfare of agriculture should give long pause before making any change whatsoever in the present financial structure or management of the Federal intermediate credit banks, especially in these critical days for agriculture generally, but specifically the livestock industry.

If however, in the alternative you decide that these institutions should be sold and all Government money taken out of their financial structure—but I submit again, when in all of the history of agricultural development, has so much been done with so little?—then I think in fairness that the three amendments below suggested should be adopted and made a part of this bill by this committee:

1. That all stock in the consolidated bank be purchased by users of the bank on an equal basis—not just the PCA's.

2. That the OFI's and all other institutions doing business with the Federal intermediate credit banks have representation on the district farm credit board and that the majority of the members of the board of directors shall be elected by the stockholders of the bank.

3. All users and stockholders of the bank shall have access to and participate in the rights and privileges of the revolving fund.

I urge the adoption of the amendments, not only as a matter of fairness, but for these more broad and farsighted reasons:

1. For the ultimate welfare of all agriculture—the farmer, dairyman, poultryman and livestock raiser—all of whom have peculiar and particular problems of finance, production, marketing and distributing.

2. That the ownership and management of the rediscounting agency—the FICB's—should not be turned over to one segment or faction, but open to all who rediscount regularly.

3. Membership on the boards of these banks of and by persons representing the old line loan companies can make immeasurably constructive contributions of experienced management, which can, and will, unquestionably encourage and retain the confidence of not only the borrowers, but of the investing public.

The cattle industry does not seek either favoritism or subsidy, but does earnestly desire a strong rediscounting agency that understands its peculiar problems and will stand the strain and stress of time.

Any cattle loan company then or now does not have the treasury sufficient to carry its own paper. It is a matter of rediscounting and the cattle loan company is simply the mechanics of receiving the application, investigating the borrower and checking his collateral and then supervising that collateral during the course of the loan.

Then he has to have a place to rediscount his paper. The insurance companies, the large insurance companies, were never interested in a production loan. They were interested in real estate. There are no sources of discount except the big banks and the national banker, or any banker is the guardian of the deposits of his depositors, and he must keep himself liquid and so in the days immediately following World War I, the Federal Reserve System was cursed pretty thoroughly by many cattlemen for devaluating to the extent they did, but I have never criticized them because they were faced with protecting the integrity and the liquidity of the national banks that they supervised.

The Government and the Congress, in their wisdom, having had experience with the land bank, which is, I think, the greatest piece of legislation affecting agriculture in the history of this whole country, having had that experience and knowing the peculiar characteristics and problems of the production loans, particularly at that time, and, Mr. Chairman, it was largely livestock loans that we were concerned with, the Congress passed the Federal interim credit bank law, and I think it goes without any fear of contradiction, that it is the second most monumental piece of legislation that this Congress ever passed for the benefit of agriculture. You will remember in those days you had to set up the War Finance Corporation. It was purely a temporary matter. The Government extended its credit but they said they wanted pay for it, and they closed it up as quickly as possible, and the answer, based on sound principles, was the setting up of the Federal Intermediate Credit Bank System.

Now, in setting up that system, the Government was not giving anybody any money. They were not subsidizing anybody. They told everybody concerned that we are not responsible for your debentures, and they took the broad view that something had to be done to finance the short-time credit of the agricultural community, the farmers and the ranchmen, as they explained. The Federal intermediate credit banks fitted the problem like a glove on a hand. Just the fact of the supervision of the Government debentures and them being paid promptly met with an astonishing response from the investing public, so much so that although this system of Federal intermediate credit banks was not 10 years old, it met and weathered without a whole lot of stress and strain, it met and weathered the terrible depression days of the early 1930's. It is something to think about. It is something that we can all be grateful for, and certainly you Congressmen can be proud of the Federal Intermediate Credit System in the hands of old line bankers with sound ideas. They were not using that capital that was advanced by the Federal Government without pay. The law provided as to those branches, that if they made any money they had to pay 25 percent of it back to the Treasury, and they have paid millions of dollars back to the Treasury for the use of that money, but they were such a success and it was new, that it made a paved road for the Government to launch the bankers cooperatives, and the Production Credit Corporation and their children, the Production Credit Associations.

I think that this system ought to be retained. It is sound.

Never in financial history has so much good been done with so little money.

I would like to keep the Federal Credit Bank System and its management as it is, but if, in your wisdom, you want to recall the capital of the Federal intermediate credit banks, I am with you. I have no objection to this at all.

I do think, and I must say this just in ordinary honesty, that I think it is an awfully poor time to be making any changes.

The cattle industry is a sick industry. All agriculture is in a pretty bad way and the farmers credit is the most delicate thing of this whole business, and as far as the livestock industry is concerned, we hold our heads pretty high. We have never asked any favors. We have never wanted any subsidy. We are willing to stand and fall on sound economics.

However, if you do go ahead and make this change, if that is mandatory and it is decided that you are going to recover this capital now, then I think, in common fairness, it should not be turned over to one faction or one segment. This great system has been a father to all the needs of agriculture. This statement says:

The 12 Federal intermediate credit banks were established in 1923 by the United States Government to provide a source of funds for institutions making loans to farmers and ranchers. The banks are authorized to extend agricultural credit to production credit associations, incorporated agricultural credit and livestock loan companies, State and national banks and trust companies and certain other types of lenders, financing the short term credit requirements of farmers and ranchers. They are also authorized to extend credit to the banks for cooperatives.

This thing has been nationwide. It has not been only industrywide.

Now, as to turning that over to one segment, I cannot see the fairness of it. There are different philosophies about everything, including the loaning business.

I bear no grudge against the PCA's. I think they have done a wonderful job but I want you gentlemen to thoroughly understand as to the old line companies that we furnish our own capital and we pay our interest, and that certainly, as far as our little company is concerned, that the Federal intermediate credit banks have never lost one penny, and as far as the Government is concerned, it has never lost one penny out of the Federal Intermediate Credit System.

You have a sound thing working.

Now, if you are going to do this, why turn it over to one segment, to one faction? I think that we ought to let the rules apply to everybody that rediscounts with the Federal Intermediate Credit System.

I am not making that plea primarily for myself or even for my little company. I am trying to envision a far broader, a far more far sighted idea as to the future welfare of agriculture and primarily the livestock industry which forms the market, and makes a market for most of the products that the farmer raises.

Gentlemen, I appreciate your time and consideration very much and all I ask is an open mind. Let us keep agricultural financing sound; let us keep it in sound hands.

MR. POAGE. Thank you, Mr. Sartwelle.

Are there any questions?

MR. SARTWELLE. Thank you, Mr. Chairman.

STATEMENT OF L. D. CAMPBELL, SECRETARY, OFI COMMITTEE OF TEXAS, HOUSTON, TEX., REPRESENTING THE HOUSTON AGRICULTURAL CREDIT CORP. AND OTHER FINANCING INSTITUTIONS OF TEXAS

MR. POAGE. The next witness is Mr. Campbell. I believe, Mr. Campbell, that you represent a number of institutions, do you not?

MR. CAMPBELL. Yes.

(The statement submitted by Mr. Campbell is as follows:)

There are nine privately and cooperatively owned agricultural financing institutions in Texas which discount their loans with the Federal Intermediate Credit Bank of Houston. These are in addition to the Production Credit Associations operating in the district. These loan companies are referred to as the Other Financing Institutions or OFI's. We are naturally vitally interested in any

legislation affecting the Federal intermediate credit banks which afford us our source of money. We respectfully present this petition urging that H. R. 10285, S. 3550 and the other pending bills be amended to allow the Other Financing Institutions to participate in the purchase and ownership of the Federal intermediate credit banks on an equal basis with the Production Credit Associations.

Since the beginning of movements throughout the country to change the status of the Federal intermediate credit banks we have been opposed to any legislation which would remove these banks from Federal supervision and control. It has been our feeling that as long as the fundamental laws under which the Federal intermediate credit banks operate remain constant, we had a substantial degree of protection against the possibility of losing these banks as a dependable source of discount. Nevertheless, we feel that if the banks shall ultimately become privately owned by the corporations having discount privileges with them, we would not be opposed to legislation in that direction if we are afforded equality of treatment with the Production Credit Associations. Thus far, the bills which have been introduced do not afford us this equality of treatment in that we will not have the right to purchase capital stock of the Federal intermediate credit banks, we will not have the right of emergency participation in revolving fund nor will we have a vote in the election of members of the district farm credit boards. These are all vital elements and should not be accorded to just one segment of the patrons of the banks. We do not feel that the ownership of the Federal intermediate credit banks should be limited to any segment of its patrons. To do so would certainly place the other users of the banks in an unequal position.

We would like to present a few facts in support of our position and in justification of the reasons why there should be no discrimination between our institutions and the Production Credit Associations. As of March 31, 1956, the 9 other financing institutions of Texas had a combined capital and surplus of \$5,480,648 and had loans totaling approximately \$20 million discounted with the Federal Intermediate Credit Bank of Houston. This amounts to about 22 percent of the total outstanding loans of that bank. We do not have the figures available for the other financing institutions in other sections of the country, but we are reliably informed that the OFI's in the 12th Farm Credit District at Spokane, Wash. (including the States of Washington, Oregon, Montana, Idaho, and Alaska) accounted for 35 to 40 percent of the Federal Intermediate Credit Bank's annual volume of loans in that district. We also understand the OFI's have a substantial volume of loans discounted with the Federal Intermediate Credit Bank of Berkeley, Calif.

Eight of the nine financing institutions for which we are speaking have been discounting with the Federal Intermediate Credit Bank of Houston for more than 27 years, and two of these institutions have been discounting with that bank since it was organized in 1923. The other financing institutions all over the country were, for the most part, organized and served agriculture for 8 to 10 years prior to the organization of the production credit system (Farm Credit Act of 1933), and have contributed in a proportionately large measure up to \$52,566,642 (as of December 31, 1955) of accumulated surplus, reserves and undivided profits of the 12 Federal Intermediate Credit Banks.

The institutions for which I speak have a history of successful operations and continued growth of many years, serving the agricultural needs of their patrons in good times and bad. They have eloquently demonstrated their worth to the farmers and ranchmen who have availed themselves of their services, and have earned a place of permanence in the farm credit system which should be equal in all respects with that of the Production Credit Associations. We, therefore, feel that we are entitled to equality of treatment under the pending legislation and urge that H. R. 10285, S. 3550 and any other bills of a similar nature be amended in the following respects:

1. To enable the other financing institutions to purchase the capital stock of the Federal Intermediate Credit Banks on the same basis as the Production Credit Associations. Control goes with ownership and we certainly feel that we should be allowed to share in the purchase of the banks, particularly since the other financing institutions have played an important part in the growth of the banks over the years. In addition, participation by the other financing institutions in the purchase of the bank's capital stock would spread the burden and enable the Government capital to be retired at a faster rate.

2. To enable the other financing institutions to vote for the two directors of the District Intermediate Credit Banks on the same basis as the Production Credit Associations. This can be accomplished by allowing the two such

directors to be elected by the stockholders of the bank on the basis of one vote for each share of the capital stock of the Federal Intermediate Credit Banks of the district owned by each such stockholder, instead of the method of election now provided by law.

3. To permit the use of the revolving fund by the Governor of the Farm Credit Administration to subscribe to the capital stock of the OFI's discounting with the Federal Intermediate Credit Banks in times of stress or emergency, on the same basis as he is now permitted to subscribe to the capital stock of the Production Credit Associations, and under regulations promulgated by him.

It is our feeling that by reason of the important position held by the other financing institutions in the agricultural lending field and the marked contributions made by them during the past 33 years in the establishment, development, and successful operation of the Federal Intermediate Credit Banks, we should have nothing more or less than equality of treatment with the Production Credit Associations.

MR. CAMPBELL. Mr. Chairman and gentlemen of the committee, I am L. D. Campbell of Houston, Tex., secretary of the OFI Committee of Texas.

I am an officer and director in the Houston Agricultural Credit Corporation, one of the OFI's which is doing business with the Federal Intermediate Credit Bank.

I have been in the credit business for the past 30 years, the last business being a production credit business, and if you will pardon a slight personal reference, I may state that I have had quite a bit of experience in farm credit work, of which I am very proud.

I went to work with the Federal Intermediate Credit Bank in 1934 during the depression years. I was with that institution for a period of 5 years as credit examiner.

Then later, I went to the Production Credit Corporation where I also was engaged in credit work, where I remained until 1952. In 1952, I went with the Houston Agricultural Credit Corporation, an old line company, and I became an officer and director in that organization.

Briefly, the Houston Agricultural Credit Corporation as an example, has been discounting with the Federal Intermediate Credit Bank ever since 1923. They were the first one, they got the first loan, I guess, of any of the OFI's.

They started with only about \$5,000, and the corporation was organized by the dairymen down there. Today that capitalization is something over \$1 million and the loans on the books presently amount to \$5 million.

This company is owned entirely by the stockholders. In 1923, when we organized, it was organized on the basis of the Federal land bank system by stock ownership; that is, each time a borrower gets a loan, he buys 5 percent of his loan in stock. That is the way they make up their capital. I refer to those matters because I would like to give you a little of my background.

I am also representing here today nine companies of Texas. These nine Texas companies all discount loans with the Federal Intermediate Credit Bank. Eight of those 9 companies have been discounting with this bank for a period of 27 years, most of them for a period of 8 to 10 years prior to the organization of the production credit system, and they contributed quite a bit to the capital structure of the present Federal Intermediate Credit Bank system.

The old line companies had quite a bit of trouble through the depression and before the depression. From 1923 to 1933, they were privately capitalized. They had no Government capital. They had

no one to help them, but they struggled on through these 10 years and then the depression hit us. The load, of course, was too much to carry.

The production credit system came into being in the year 1933 on a much wider scope, and it has served a very fine purpose and it has accomplished a lot in all of these years.

Now, the OFI's in Texas, of course, are nine in number. They consist of: The Agricultural Livestock Finance Corporation of Fort Worth; the Commercial Cattle Loan Company of San Antonio; Del Rio Wool & Mohair Company of Del Rio, Tex.; Houston Agricultural Credit Corporation, Houston, Tex.; National Finance Credit Corporation of Texas, Fort Worth, Tex.; the Producers Loan Company, Childress, Tex.; Producers Wool & Mohair Company, Del Rio, Tex.; San Antonio Agricultural Credit Corporation, of San Antonio; the Wool Growers Central Storage Company of San Angelo, Tex.

That gives you an idea of a cross section of the various types of loans that these organizations handle.

These institutions have no thought about a fight with the Production Credit Associations. When I was on their side of the fence, we worked with the Production Credit Associations. I am on the other side of the fence now, and we still work with the PCA's, but there was a very valuable contribution made by the OFI's, especially in the period 10 years prior to the organization of the PCA's, during those 10 long years when they were accumulating reserve surpluses of the credit banks.

As an example, the Houston Intermediate Credit Bank on December 31, 1933, had \$730 in surplus accumulated by the OFI's. That was up to 1933. It was all OFI earnings.

Since that time the OFI's have continued to contribute to that fund to build the surplus. Today the OFI's in Texas, as well as, I am sure, in the other parts of the country, are asking for only three things in connection with this bill:

They are supporting the bill but they are also asking an amendment be made to include better participation by the OFI's in the purchase of the Federal Intermediate Credit Bank stock.

In other words, the first amendment that the OFI's would like to see included is the right to buy capital stock along with the Production Credit Associations on the same basis.

Of course, as you know, with control goes ownership and without ownership, the OFI's feel more or less like a stepchild, left out. They want the opportunity to purchase stock on the same basis as the production credit associations.

The second thing the OFI's want, of course, is the power of franchise, the right to vote, to help to elect directors. Naturally, the directors are going to control the policies and affairs of the Federal Intermediate Credit Banks.

Unless the OFI's have some representation on the Farm Credit Board, it is entirely possible in years to come, the OFI's feel that they might be slighted as the years go by.

The third is to permit the Governor of the Farm Credit Administration to subscribe to capital stock in the OFI's on the same basis as he does that of the PCA's in times of emergency or stress.

Now, the OFI's have never asked for one dime of Government capital but the time may come when they need some help in that respect.

They want to serve agriculture along with the PCA's and they want to go along with them and work with them.

It is our feeling that because of the important position held by the OFI's in the past 33 years in the agricultural field that these amendments which we request should be made.

Thank you, gentlemen.

Mr. POAGE. Now, you point out that you would like to stand in the same position that the PCA's stand in as far as all of the benefits contained in this proposal are concerned. What about the obligations?

Mr. CAMPBELL. I think that the OFI's will stand their responsibility along with the benefits involved.

Mr. POAGE. Let us see what responsibilities you would accept. Are you willing to limit your line of credit to dealing with the intermediate credit banks?

Mr. CAMPBELL. I think they would if it was a necessary provision. We have had only one organization in Texas in that connection and that is John Brown.

Mr. POAGE. Yes.

Mr. CAMPBELL. I think that is the only person we know of who has ever operated on that basis, but the others have strictly adhered to operating from the Federal Intermediate Credit Bank only.

Mr. POAGE. Now, then, will you accept the right of examination the same as the CPA's do?

Mr. CAMPBELL. Mr. Poage, at the present time, the old line companies are examined by the Federal Intermediate Credit Bank. Each year, the examiners go out and make an examination of the old line companies.

Mr. POAGE. In order to see that your loans are all right?

Mr. CAMPBELL. Yes, and also to examine the capital structure.

Mr. POAGE. However, they have no supervision over it.

Mr. CAMPBELL. But, there is supervision over the loans. When the loans are submitted they can accept or reject them.

Mr. POAGE. Yes, I understand that but they have no supervision over them comparable to that which they have over the PCA's.

Mr. CAMPBELL. Yes, sir; that is right.

Mr. POAGE. Would you accept that same kind of supervision?

Mr. CAMPBELL. That would be a matter of question. I cannot speak for the OFI's in that respect.

Mr. POAGE. What about competition?

Mr. CAMPBELL. Pardon me, Mr. Poage?

Mr. POAGE. What about competition? I believe I am right, am I not, that in my area, if I wanted a PCA loan, I could not go out to the Texas Production Association of San Angelo and get one, could I? I would have to make it with the Waco Association, would I not?

Mr. CAMPBELL. Yes. In the beginning, they had a big association with the Texas PCA's which served the entire State because they felt we needed a livestock specialist to handle large loans.

Mr. POAGE. But we do not have that now, do we?

Mr. CAMPBELL. After operating 7 or 8 years, they confined them to a localized area.

Mr. POAGE. But otherwise, you would be willing to do the same sort of thing?

Mr. CAMPBELL. That would be questionable; I do not know, sir. We would have to present it to them.

Mr. POAGE. I am perfectly willing to accept your premise that we should treat everybody alike. We certainly should not discriminate against the other financial institutions, but I just want to know if you are willing to accept the bitter with the sweet. If that be the truth of the matter, I do not see why you do not just become a part of the PCA, if you are going to accept all of the burdens and responsibilities incident to it.

Mr. CAMPBELL. How could we become a part of PCA, Mr. Poage?

Mr. POAGE. You could only do it by getting a Federal charter and giving up your profits and becoming a cooperative institution.

Mr. CAMPBELL. They will tell you that the Farm Credit Administration Act designates certain territories for the PCA in the United States and that is it. Nobody else can apply to enter that territory. We could not apply if we wanted to. We could not organize one if we wanted to. It is all there.

The Farm Credit Administration designates it in the United States, Puerto Rico, and Cuba.

Mr. POAGE. I know, but we might get some reorganization. If we are going to make changes, we might make some changes on those boundaries.

I am one of those who feel that there is certainly room for all of these lending institutions in Texas, and I think we could work it out so that there is plenty of room for them, but if you are going to demand the right to direct policies, and I can understand your wish in that respect, if you are going to demand that right, just how are you going to justify asking the privilege to go out and to be exempt from a good many policies which are applicable to the majority of the members of the plan?

Mr. SARTWELLE. Would it be out of order for me to answer that?

Mr. POAGE. Yes, you may answer it.

Mr. SARTWELLE. I do not think that the Congress, when it was faced with this perplexing problem that had never been solved before back there in 1923, intended to have only some narrow channel in which it could help agriculture. The law itself is as broad as the field of agriculture, and the lending of money on chickens, and I would hate to have a loan on them, is different from the lending of money on cattle, and the lending of money on crops. That is a different situation.

You knew Mr. Smith from Mexia.

Mr. POAGE. Yes, I knew him.

Mr. SARTWELLE. He was a very fine gentleman. No better gentleman ever lived in the world. He was a very successful banker and his father had been a country banker before him. When they struck oil at Mexia, he got pretty rich. He had a little extra time on his hands, and when the Government needed some help there in the early 1930's, because the production-credit associations had not been formed, and the old intermediate credit bank was not broad enough to take care of the situation, he offered to help. In fact, right there was the time when the one thing wanted was to borrow money from somebody else. They needed help. They could not get one dollar out of the national banks in Houston to help to meet this agricultural crisis. The national banks were trying to protect themselves.

At that time Ed Smith headed this temporary relief lending agency in Houston. They had a fine board behind it. We established general policy but, after all, some executive has got to be able to say "Yes" or "No."

The second in command was our good friend Mr. Holman Cartwright, but he told the Government, "I can only work when I have time; I have too much business of my own to attend to." So he was just in and out.

The third man in command was me, the property and livestock loan man. When a cowman would come in to Mr. Smith, who had been a successful banker at Mexia all of his life, a man with millions of dollars of his own, and some cowman, a rusty looking old cowpuncher, said, "I have to have \$50,000, or \$75,000, or \$100,000," it scared Mr. Smith to death. He would say, "You better see Mr. Cartwright or Mr. Sartwelle."

Now, if some Negro came in and wanted to borrow \$35—and they had such applications in those days—or he wanted to borrow \$200 or \$300, Mr. Smith would talk to him and he was perfectly at home in doing it and he wanted to help him.

Now, this bill says that it is the merging of the Production Credit Corporation with the old intermediate credit bank.

I am just an ignorant Texas cowman but it looks like to me it is eating them up. That is actually what they are doing. They are not being merged with them, they are eating them up.

I want to say something else just in all due courtesy about my feeling toward these PCA's because I know a lot of those PCA's. They had to have that supervision. You had to provide your production-credit corporation to supervise and teach people and the farmers how to lend money because you did not relax for 1 minute your instructions to the Federal intermediate credit banks that they must keep themselves sound, that they have got to pay their debentures and their debentures were based solely and only on the collateral that they had, and in the early days, in the 1930's, you know that if a flock of farmers, four or five of them, got together and wired Mr. Roosevelt, they got attention, and you would have had a very funny looking credit situation if you had not had supervision.

Now, we are willing to have whatever supervision is necessary, but I will tell you the kind of supervision that we need.

We take a piece of paper over to the Federal intermediate credit bank and they say, "We will not take it or we will just take a part of it"; and if the report on the man comes in bad, we have to inspect it and make out a sworn statement about it. That is the supervision we get.

I like powers and I think that they are necessary but I do not like the child and I do not like the student to be made the master. I have not any personal feelings in that.

I am talking now, Mr. Poage, for the future of agriculture.

I have dedicated the best part of my life to try to help Texas agriculture and the Texas livestock industry, and this thing of credit is something that is delicate. It is important.

Mr. Chairman, you say that we should become part of PCA. I am seeing down through the years and they say now, here, you are taking our territory because we have a right to lend money all over

the State of Texas as we have a State charter. Also we make loans in Louisiana. We have to get special permission in order to do that, and as you know, they have peculiar laws but we do it, and the loans have been good.

Now, we want equality with the PCA's, just equality, and this law gives us only one, that we will have the right to discount. We will have the same interest rate, but it leaves in the PCA district boards and in this Board in Washington the authority to make rules and regulations. It is this administrative law that has the force and effect of law that could, in time, put these other lending agencies out of business and you have narrowed the channel down to a very small stream.

Mr. JOHNSON. Do I infer from what you said that there are certain types of farmers that you make loans to, which the PCA will not make loans to, and yet they are good people who should have loans?

Mr. SARTWELLE. The farmers that we lend to generally are people who come to us with pretty direct requests.

Mr. JOHNSON. What I was trying to determine is whether or not it is your policy to allow a loan to certain farmers that the PCA would have turned down, or a group that PCA perhaps would not take?

Mr. SARTWELLE. No; I think the reverse is true.

Mr. JOHNSON. Are you a little more conservative on your loans than PCA is?

Mr. SARTWELLE. Yes, we are more conservative on our loans than PCA is.

On the other hand, and I will say this partly because Mr. Poage knows as a cowman, as an old cowman, that he did not like sheep and particularly the dairymen. He just looked at beef, but as to our little loan company, which is here represented by Mr. Campbell and myself, we have adopted a policy of lending to dairymen, not on the weight of that cow but on her production of milk, and we make them pay us weekly. It is in the face of this PCA opposition, and don't you think that those old boys are now out looking for business. We have from 80 to 85 percent of the dairy business in the Houston milkshed.

Mr. JOHNSON. How does your interest rate compare with theirs?

Mr. SARTWELLE. I think that they are the same. We get our money from the Federal Intermediate Bank.

Mr. JOHNSON. Are your charges about the same as PCA's?

Mr. SARTWELLE. Yes, sir.

Mr. JOHNSON. That is all.

Mr. SARTWELLE. Speaking of a Federal charter under this regional Federal interim credit bank, somebody else bought it, and they asked if we would be willing to take a Federal charter. The original law provided that in order to get a charter, you had to have a minimum capital of \$75,000. If you mean by changing our charters, that kind of a thing, we would be very glad to do it, but of course, we took a little over \$5,000 originally and put it into this organization and built it up.

Mr. JOHNSON. Would the restriction of territory work with you people?

Mr. SARTWELLE. No, sir; that is a thing that we are very violently against.

Mr. JOHNSON. Thank you.

Mr. HOPE. Mr. Sartwelle, I am sorry that I was called out and did not get to hear your statement, but since I have returned and heard just your concluding remarks, I want to see if I understand your position correctly. Do you contend that the passage of this legislation will put organizations like your own in a worse position than they are in at the present time?

Mr. SARTWELLE. No, I do not, Mr. Hope, right at the moment. I think we would probably live but I submitted in my argument that in all fairness, if they were to recover this capital for the Government and sell out and turn the thing over, it ought to be turned over to the people that rediscount with the Federal credit interim bank on an equal basis to all. I do not think that there should be any election about it. I think in yesterday's testimony it came up and Mr. Poage objected to some fellow who wanted to have the right to buy stock or the right not to buy it, and I think he was right.

I think we ought to be required to buy stock and certainly we ought not to ask the PCA's to undertake any burdens we would not undertake.

It is true that you do have a conflict of philosophy here and I do not think the Government is one to carve out certain spheres here in order to give people a monopoly on that particular little area.

Mr. HOPE. You are opposed to the idea of getting Government capital out of these banks?

Mr. CAMPBELL. No, I am for it. I am not opposed to that.

Mr. HOPE. I think I understand your position; thank you very much.

Mr. POAGE. Mr. Campbell, do you have anything further?

Mr. CAMPBELL. No; thank you, sir.

Mr. MCINTIRE. Could I ask you, Mr. Campbell, a short question?

Mr. CAMPBELL. Certainly, sir.

Mr. MCINTIRE. In the 10th district, I am assuming from the presentation that has been made that the OFI's are rather active in the credit field in that district?

Mr. CAMPBELL. Yes, sir.

Mr. MCINTIRE. In any of your advisory committee arrangements within the district, do they have advisory committees?

Mr. CAMPBELL. Yes, sir, they do.

Mr. MCINTIRE. Are the OFI's represented in any of that advisory committee arrangement?

Mr. CAMPBELL. No, sir, they are not.

The OFI's have never worked together with them as a unit or organized in any way until 2 years ago. When the bill came up last year, the policy committee of the Production Credit Corporation took over the Interim Credit Bank functions and so forth, and we got together then and met; that is, the representatives of these nine companies, and I was elected secretary of the nine companies.

Mr. MCINTIRE. Then, prior to that time, there would not have been any appropriate committee, in which any one person could have served as a representative of the OFI's in connection with an advisory committee function?

Mr. CAMPBELL. Yes sir; that is correct.

Mr. MCINTIRE. Of those that you are speaking for in the 10th district, how many of those are cooperatively organized?

Mr. CAMPBELL. Out of the nine, I can safely say for three of the larger ones. There are about five that have some stock features, but the stock is held by a few individuals, or a corporation, and that there are three that are cooperative in nature.

Mr. McINTIRE. Are they organized under the cooperative law of Texas?

Mr. CAMPBELL. No, sir; they are organized under State charters. I believe the National Finance Credit Corporation has a different charter. However, they are organized under a State of Texas charter also. I may be wrong on that, but I think that is the situation.

Mr. McINTIRE. How many of these nine that you represent are subsidiaries of other corporate structures or are controlled as subsidiaries?

Mr. CAMPBELL. The Producers Loan Co. of Childress, Tex., operates in connection with the First National Bank. The same officers of that bank are also officers of the Producers Loan Co. of Childress, Tex.

Mr. McINTIRE. The other eight are operated as separate business entities, performing specific services?

Mr. CAMPBELL. That is right.

Mr. McINTIRE. They are not tied in with any bank or a farm cooperative?

Mr. SARTWELLE. That is right. They are on their own, and are separate corporations to serve agriculture and the ranchers on the basis of fair interest rates.

Mr. McINTIRE. Thank you.

Mr. JOHNSON. What restrictions would you feel that your group would be willing to take, the same as apply to the Production Credit Associations?

Mr. SARTWELLE. That is very hard to say, Mr. Johnson.

The OFI's are a little group and we have not met too often. It would be hard for me to say about that. We would have to get together and find out, but I think that for the most part, the OFI's would accept practically all of the restrictions which are imposed on the credit associations. Some of them might raise the question of what restriction would the PCA's receive in relation to the OFI's, but the OFI's operated 10 years prior to the PCA's and built, you might say, this house of credit or started it and owned part of it. Now, along come the PCA's in 1933, and they are going to start paying for the house and delegating the OFI's to the back again.

Mr. JOHNSON. There is at least one thing that you would not want; you would not want a limitation on your territory?

Mr. SARTWELLE. Yes, sir; that is right, because that is the way they have always operated.

Mr. GATHINGS. Mr. Campbell, how do you account for there being such a decline in the number of OFI's now doing business? Only about 10 percent of them are now in the field, as against those which were operating 20 years ago.

Mr. CAMPBELL. I am glad to answer that; that is a good question. A good many private corporations were organized during the depression years by local banks and other interested members to bail out or tide over the agricultural depression in the early 1930's. Most of these then dissolved in 3 or 4 years, after having served their emergency purpose. I assisted in the organization of one such agricultural land

organization in Dickens County in west Texas. We organized them in 1932, and in 1933 and 1934 they got into pretty good shape, and in 1935 they dissolved and returned their capital back to the various owners who contributed to it—the ranchers and bankers—paid a dividend, and paid off their connections with the intermediate credit bank.

It was a temporary proposition back in those years. That accounts for a large number of the OFI's who used those facilities in those days during the depression years.

On the other hand, there was a number of livestock loan companies which went broke all over the country; in Texas, I believe 5 went broke or liquidated, that is, 5 in the past 33 years. Those fellows actually went broke because they had their portfolios full of loans. They had terrible drought conditions and low prices, and they went just as far as they could, and their capital was exhausted. They had no revolving fund to put back into their organization. If they had had revolving funds they would have survived, but they had to liquidate and take their losses.

Does that answer your question, Mr. Gathings?

Mr. GATHINGS. Yes; thank you.

Are there any further questions?

Mr. McINTIRE. Yes.

Mr. GATHINGS. Mr. McIntire?

Mr. McINTIRE. In my own home county we had three agricultural credit corporations set up on this same temporary basis. When the PCA's were organized, they backed out of the field. There were three of them fully owned by the banks but they backed out of the loan field when the PCA's were organized.

Mr. GATHINGS. What about the situation in recent years, in the last 5 years?

Mr. CAMPBELL. There has been one added in the past 5 years of the old line companies, in San Antonio. The Agricultural Credit Corporation was organized about 5 years ago to discount loans with the Intermediate Credit Bank.

Mr. GATHINGS. Thank you very much.

Mr. CAMPBELL. It has been a pleasure, gentlemen.

Mr. GATHINGS. Thank you, Mr. Sartwelle.

Mr. SARTWELLE. Thank you, Mr. Chairman, and gentlemen of the committee for the opportunity to appear on this measure.

STATEMENT OF LLOYD GODLEY, OSCEOLA, ARK., PRESIDENT OF THE SECRETARY-TREASURERS AND PRESIDENTS OF THE ARKANSAS PRODUCTION CREDIT ASSOCIATIONS

Mr. GATHINGS. I believe we will have time to hear Mr. Godley and Mr. Diebold before we recess.

Mr. Godley was with us a year ago on this legislation. Having organized the Wichita district many years ago he is well informed on the question of farm credit. He is at the present time general manager of the Production Credit Association of Osceola, Ark.

(The statement submitted by Mr. Godley is as follows:)

STATEMENT OF LLOYD GODLEY, HICKORY RIDGE, ARK.

I am Lloyd Godley of Osceola, Ark., president of the Secretary-Treasurers and Presidents of the Arkansas Production Credit Associations.

I am a farmer, a member of Planters Production Credit Association, and general manager of the association.

I helped to organize the production credit associations in the Wichita district, served for a time as field credit supervisor, and later served as field representative for the Production Credit Division, Washington, D. C.

I am here representing 10 associations of my State.

We do not question the good intention of those who have prepared this legislation, nor the high purpose of the honorable gentlemen whose names appear as sponsors of this bill.

We shall do our best to be constructive in our opposition. We shall strive to point out what we consider to be wrong and, in the end, we shall offer an alternative.

We have no objective in being here except to protect the interest of us farmers who own the production credit associations.

We will first call your attention to the declaration of policy set forth in this bill, a part of which is as follows: "To facilitate farmer ownership of the merged banks, and retirement of Government capital therein; to encourage and promote the continued growth and development of production credit associations as self-supporting cooperative lending institutions."

We think it unfair to single out the farmers who owned the production credit associations and demand that they be responsible for retiring Government capital from the Federal Intermediate Credit Bank.

We do not see how this bill can, in any way, encourage and promote the continued growth and development of the production credit associations, but we shall point out many reasons why we feel that this bill, if passed, may work to the detriment of our associations.

Under the guidance and constructive supervision of the production credit corporations, there has been developed a nationwide system of production credit associations without precedent in soundness of operation or service to the farm people.

There is nothing inherent in a farmer capitalized and operated credit institution to make it safe or sound.

Before production credit, we had many farmer-operated credit institutions, discounting through the intermediate credit banks that failed for lack of proper guidance and supervision. We, therefore, consider it extremely unwise to eliminate the production credit corporations from the system.

Even though the production credit associations may be required to completely support the corporations, we still feel that its service will be worth much more than it will cost.

We do not consider it fair or in the traditions of our Government, to terminate by legislation, the officers and employees who have built this system.

We do not claim that the motive back of this section of this bill is to silence those officers and employees who might otherwise oppose the bill, but we are of the opinion that it has done that very thing. We can see the possibility of such legislation throwing the Farm Credit System wide open to political appointments.

As you gentlemen well know, the Federal intermediate credit banks were not set up for the purpose of serving production credit associations. They were set up 10 years before the Production Credit System.

The Federal intermediate credit banks have, and do, serve well as the discounting agency for other financial institutions lending to farmers, which includes banks, livestock associations, cotton factors, et al.

We see nothing fair in forcing production credit associations by legislation, to bear the burden of purchasing a bank of discount for the use of other financial institutions. We are sure that many of the other financial institutions feel the same way about this matter.

The proponents of this bill may claim that the purchase of Federal Intermediate Credit Bank will be a benefit, not a burden, to the associations. With this we must disagree. Let us point out that the average association will be required, under this act, to invest about \$30,000 of its capital in the Federal Intermediate Credit Bank. This amounts to approximately 14 percent of the total capital stock of our associations.

The use of this capital will be lost to the production credit association for a very minimum of 20 years—some have estimated it at 40 to 50 years. This capital, while still figured as an asset of the production credit association, cannot be used as security for production credit loans.

This loss to each production credit association of \$30,000 effective capital, will mean a loss of \$15 million for all PCA's in the Nation.

We would like to know how such can encourage and promote the continued growth and development of the production credit association.

In order that our associations might become farmer owned and have sufficient capital left to serve the credit needs of our respective communities, many of us purchased stock far in excess of the amount necessary to qualify our loans. To us it doesn't seem quite fair to legislate this hard earned capital into Federal Intermediate Credit Bank against the will of the farmers who put up the money.

We are vigorously opposed to ownership without control.

Should the production credit associations ever own the Federal Intermediate Credit Bank, they would have no control whatsoever under this proposed legislation.

A board, composed as are our district farm credit boards, can never by the greatest stretch of the imagination, be considered a production credit board. Should you gentlemen recommend to the Congress that this bill be passed, we would hope and pray that you amend it to require a separate board for production credit. Instead of decentralizing the system—bringing it closer to the people it is to serve—this bill centralizes 15 functions in Washington that are now being performed at the district level.

The proposed bill provides that after all A stock of the Federal Intermediate Credit Bank has been retired, the bank may then retire B stock held by the production credit associations. There is no limit set on the amount of B stock that may be so retired; therefore, it may be assumed that the Federal Intermediate Credit Bank would retire all of the B stock owned by the associations.

In such case, the Federal Intermediate Credit Bank would evidently become a public trust. Even though the production credit associations had put their capital into the Federal intermediate credit banks with the expectation of eventual ownership, they would find that they had no ownership at all should Federal Intermediate Credit Bank see fit to retire the B stock.

The bill sets no margin of interest that the Federal Intermediate Credit Bank may charge the associations.

It may be argued by the proponents of this bill that the district board and the Farm Credit Administration will protect the associations against excessive interest rates. We have a lot of faith in our fellow man, but we have a lot more faith when it is down in black and white in the law.

We have been asked the question, What do you propose as an alternative to the proposed legislation?

Our answer is that we need no alternative legislation at this time.

We have a most excellent production-credit system, that has served well the farmers of the Nation for the past 22 years.

When the Farm Credit Act of 1933 was passed, there was no indication that the Congress would ever require, or expect, the production-credit associations to purchase the Federal Intermediate Credit Bank or the Production Credit Corporation.

The farmers have done a magnificent job of conserving the capital appropriated by the Congress to capitalize the associations. Through careful management, the majority of the associations have returned to the Production Credit Corporation all of the Government capital. But, despite good management, adverse conditions have prevented some of the associations from becoming completely farmer owned. Now, under this proposed bill, with no choice of their own, they are to be burdened for at least a generation with the greater task of purchasing the Federal Intermediate Credit Bank, and this, mind you, before they have completed the job of farmer ownership of the associations.

It is popular to preach complete farmer ownership of the farm credit system. It should be more popular to have a system that gives the greatest amount of credit service to the farmer at the lowest cost to him.

We farmers, as all of us know, are in a severe cost-price squeeze. We cannot see the logic of the Congress on the one hand passing a farm bill to relieve the pressure of low farm prices, and on the other hand passing legislation that will burden the farmers' credit institution.

For the duration of this farm crisis, we honestly believe that the Government capital should be kept in Federal Intermediate Credit Bank and Production Credit Corporation. Their operations should be streamlined for economy and efficiency. The Federal Intermediate Credit Bank should in reality, become a bank of discount. It should give up the practice it has followed for the past 22 years of

being a primary lender. We read in the papers that the President has recommended foreign aid of 4.8 billion dollars. We would not question the judgment of our President in reference to his foreign-aid recommendations. With the well-being of our country at heart, we are confident that he would make no recommendation except what he honestly considered best for us all.

The reason we mention this foreign aid is that the Government capital in our farm-credit system is just a pittance compared to our annual foreign-aid contribution. It would seem to us that the well-being of the American farmer is, to say the least, equal in importance to that of our presumed friends in foreign lands. We believe that the proposed bill will not reduce—but may increase—the cost of the farmers' production money. We are confident it will reduce the ability of the production-credit associations to serve the people. If it means farmer ownership, it will be ownership without control. It will force farmer-owned credit institutions to invest their capital in another corporation.

It will deprive associations of a type of council and supervision that has proven good and dependable.

It may mean that the Federal Intermediate Credit Bank will eventually be a public trust corporation instead of being owned by the production-credit associations. Seeing this bill from the point of view of the farmers who own the associations, we therefore can see nothing good in it.

All the associations that have been represented before you gentlemen, or that have communicated with you in approval of this bill, would evidently take stock in the Federal Intermediate Credit Bank, if you made this feature optional. We assume this since they think ownership of such stock will be so advantageous for the production Credit Association.

If a little stock is good, no doubt more stock would be better; therefore, should you make stock ownership optional, we shall be glad to let any association have our share of the Federal Intermediate Credit Bank stock, thus permitting some association to have a double dose of a good thing. We prefer foregoing our pro rata share of Federal Intermediate Credit Bank, taking our chances along with the other financial institutions. We urge that you gentlemen of this committee do not recommend the passage of this bill.

Mr. GODLEY. Mr. Chairman and gentlemen, I am a farmer, a member of my local production credit association and, as Mr. Gathings has told you, I am also general manager, of that association.

I am appearing here as president of our Arkansas Federation of Production Credit Associations. I represent 10 associations out of the 14 of our State. Ten of our associations are opposed to this legislation. Four of them are either favorable to it or neutral.

I have a formal statement here, which, in order to save time, I will follow rather closely but not exactly.

We, in coming here, certainly do not question the good intentions of those who have been responsible for the preparation of this legislation and most certainly we would not question the high purpose of you honorable gentlemen who have placed your names on this legislation as sponsors of it. We shall strive to be constructive in opposition to the bill.

You have heard some people say recently that certain bills were bad bills. We should like to say that we think this is a bad bill for agriculture.

I would like to compliment our Governor and his staff and the Federal Board on doing a super job of salesmanship. I think they have done a remarkable job. I rather think, however, that they are overoptimistic as to the actual so-called grass roots sentiments relative to this.

I have in mind a gentleman who appeared before this committee yesterday and he appeared here as representing the production-credit association of his district. I have in my file here a statement that he

was for the bill, stating that most of his associations in his district were for it.

I have in my file here also a resolution which was passed by that district on the 9th day of April. A copy was sent to me by the chairman of the district advisory committee, stating that they were very much opposed to any legislation for at least 5 years, that they wanted all legislation held up for at least 5 years.

I am sure that the gentleman was not representing the thing. I think he was misinformed, and this gentleman who wrote me misinformed me. I am sure that there is at least one other district in this Nation, and that most of the associations are opposed to this bill.

Mr. GATHINGS. I wonder if that gentleman is present?

Mr. MILLER. Yes, sir.

Mr. GATHINGS. Is this the gentleman here that you spoke of, Mr. Godley?

Mr. GODLEY. Yes, sir.

Mr. GATHINGS. Let us see if we cannot verify this.

Mr. GODLEY. I shall be glad to but this resolution was sent to me, I do not want to get into any controversy, and I do not want to put before this committee any confidential information which was sent to me.

Mr. MILLER. I shall be glad to ask that the resolution be made a part of the record.

Mr. GATHINGS. Without objection, it is so ordered.

Mr. GODLEY. I shall be delighted to make it a part of the record.

Mr. GATHINGS. Would you read that resolution?

Mr. GODLEY. This resolution is dated Jackson, Miss., April 9, 1956:

Resolution unanimously approved by 22 of the 26 associations of the Fifth Farm Credit District represented at a meeting held in Jackson, Miss., in the Heidelberg Hotel on April 9, 1956.

Be it resolved, That the Production Credit Associations of the Fifth Farm Credit District recommends to the Federal Farm Credit Board that no legislation be enacted to change, in any way, the present production-credit system or the Federal Intermediate Credit Bank; be it further

Resolved, That if the Congress of the United States demands such legislation for the merger of the PCC's and FICB's and the purchase of the merged institutions by the users, it is recommended that the effective date of such legislation be deferred 5 years; be it further

Resolved, That if there must be legislation, as above indicated, effective either 5 years from now or sooner, it is recommended that the bill offered by the Farm Credit Board of Washington and introduced as H. R. 10285 or any identical bill, be enacted into law; be it further

Resolved, That a copy of this resolution be sent to each production-credit association in the United States, to the directors and secretary-treasurer of each production-credit association in the New Orleans farm-credit district and to Mr. P. F. Williams, national advisory committeeman, and to each Senator and Representative in the States of Alabama, Louisiana, and Mississippi and particularly to Senator Allen J. Ellender, Chairman of the Agricultural Committee of the Senate and any agricultural organization which might be deemed advisable by the District Advisory Committee and to each member of the Farm Credit Board of New Orleans.

Certified to be a true copy.

A. T. SHIELDS,
Chairman, District Advisory Committee,
Production Credit Associations, Fifth Farm Credit District.

Mr. MILLER. Mr. Chairman, would you let me make just a short statement?

Mr. GATHINGS. Yes, sir.

Mr. MILLER. I do not represent the district, Mr. Williams is here as the representative of the district and the national advisory council. However, naturally, we work rather closely together on this thing and I want to make this statement that I feel that we have fulfilled this resolution which was passed down in Jackson.

It has been presented to the national board, to Mr. Tutell. Since we have been in Washington we have found that it was imperative that legislation be enacted immediately. Therefore, this part in here which says:

that if there must be legislation as above indicated, effective either 5 years from now or sooner, it is recommended that the bill offered by the Farm Credit Board of Washington and introduced as H. R. 10285 or any identical bill, be enacted into law.

Thank you, sir.

Mr. GODLEY. That backs up my statement but I think some people have been overly enthusiastic about the support this bill actually has over the country. I am glad that is in the record.

I stated that I thought there had been a good job done of selling this bill, and it has been interesting to hear the testimony of those who are for it.

Last summer we were told by either the Governor or Mr. Miles or someone on the staff that the merger would mean the raising of interest rates by 0.0288, which is almost three-tenths of 1 percent. I am sure all of us are glad to know they have reduced that to nothing, and if we continue to discuss this bill they may eventually get it down to where they will be paying us to take the money.

I would like to call your attention to the declarations of policy here. The policy is declared to be—

to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production-credit associations as self-supporting cooperative lending institutions.

We think, gentlemen, it is unfair to single out production-credit associations and demand that they be responsible for returning Government capital or retiring Government capital from the Federal intermediate credit banks.

We do not see that this bill can in any way encourage and promote the continued growth and development of the production-credit associations, but we shall point out many reasons why we feel that this bill, if passed, may work to the detriment of the associations. We have never yet found any way we felt it would actually benefit the production-credit associations.

I was glad to hear the Governor say yesterday—and I think we all agree with him—that the production-credit system has functioned fine for the good of the American farmer and the American people up to the present time. It was not just an accident that it happened that way, gentlemen. The production-credit corporations have been in the picture and they have seen to it that we had a nationwide coordination system of production-credit associations that were operating on pretty much the same basis and on a sound and safe basis. I think you will all agree with me that there is nothing inherent in a farmer capitalized and operated credit institution that makes it safe and sound.

It has been brought to my attention this morning that at one time there were 1,200 independent or other financial institutions in the

United States discounting through the intermediate banks, and I believe it was stated there are only 94 now in operation in the whole Nation, leaving 1,106 that have gone to the boards, many of which, I am sure, went into liquidation due to the fact they simply could not operate due to poor management, lack of supervision, or otherwise. The ones who have stayed on have had strong management, as you can see from the men who have appeared before you. They are strong men, they have not needed supervision, and they have kept their institutions sound.

I would like to tell you something that happened in my State. I hate to tell it because it did happen in my own home State. Back in the depression, before this system was organized, there was an attempt made by the Arkansas State Legislature to set up a system of credit associations, and the State put up all the capital. The people from all over the State came to get their share. They divided it up, and four or five gentlemen in our section of the State took the capital and loaned it to themselves instead of discounting the paper, and there was no association left. There was lack of organization, lack of supervision, and everything else.

Mr. GATHINGS. I remember when that act was passed.

Mr. GODLEY. Yes, sir.

It is a fine system and why tear it down now and try to rebuild it? Those production credit associations may be required to complete the support of the production credit corporations, we still feel that its service will be worth much more than it costs. In our association it would cost with its present staff, about what it would cost to hire a filing clerk. Most certainly the supervision of the corporation is worth more to any association than a filing clerk.

Let me give you an example. I have a friend who is president of a production credit association and he in some way did not much like the corporation. There were some personalities involved which should never be, but personalities were involved and he was very much for this bill. But quite recently he had a person to resign who was his main assistant, and he had one of his field men to resign who operated one of his field offices, and it was right in the busy season. They called upon the corporation and the corporation sent down a field accountant and a field credit man and helped them out a few days until they had established a new man in the field and a new accountant, and things are running smoothly now. He is not as much opposed to the corporation now as he was before.

At Osceola, 2 weeks ago we had our accountant die who had been with us for 10 years. It was a very busy season, and I hired a new accountant, but our bookkeeping system is complicated and just any bookkeeper cannot do it.

I called St. Louis and they sent a field accountant and he stayed 2 or 3 days and got the accounting started and will be back in a month or two to train the personnel there to do a good job.

You may say, "Why are you not trained to do it?"

In the early days of the system we discussed that thoroughly and decided that the manager of an association should be an executive and not necessarily an accountant, and that perhaps the associations would do a better job if the managers were executives, as bank managers are general executives and not accountants, and to leave the

accounting to somebody else. That is what the system has done through the years and it has done a fine job.

There have been few casualties among the associations in the United States.

Mr. GATHINGS. How many?

Mr. GODLEY. There were some liquidations in Maine the first year because of the potato situation there; and in the apple section of Oregon or Washington they had made a mistake in organization and they reorganized. They did not go broke but they reorganized and have operated successfully since that time. But the system has been the nearest thing to foolproof in farm credit.

We do not consider it fair to terminate by legislation the officers and employees who have built up this system. That is what this bill proposes to do. I do not know of but one officer who has fought this bill openly, and he is not with us any more.

I can see the possibility of this legislation throwing the farm credit system, or at least the production credit part of it wide open to political appointments. You all know the Federal intermediate credit banks were not set up for the purpose of serving the production credit associations. They were set up 10 years before the production credit system was dreamed of.

Mr. GATHINGS. I recall in the past in this committee there has been legislation for consolidating various and sundry credit agencies and lending institutions of the Department of Agriculture. I remember that we wrote into that legislation a provision that the same personnel would carry on. I do not recall the exact language. I think Mr. Poage would know. He also worked on the legislation before the committee at that time. I know we did write in a provision that the same personnel would continue.

Mr. GODLEY. I am not too familiar with legislation, but I never saw that in a bill before, to eliminate personnel by legislation, to kick them all out.

There is nothing personal with us, because frankly we have no selection to make. We leave that up to those who have authority to do it. But we think that silenced the people who would work hard to defeat it and to get legislation, if needed, that would be more desirable. I do not say that to criticize anybody. I am stating that as my honest conviction and the conviction of a lot of people I have discussed this with.

Mr. HOPE. What is the basis of your fear that this may result in political appointees taking over?

Mr. GODLEY. Well, sir, I have seen it happen, and in your long and distinguished career I am sure you have, that where there was an opportunity to put some person in that was more favorable from your standpoint politically, if there were two men of equal competency and one was more favorable to your political point of view, no doubt you would put him in.

Mr. HOPE. Do you not think the presently constituted Farm Credit Board and its officials are as nearly a nonpolitical organization as you can have in the Government?

Mr. GODLEY. Mr. Hope, I would not argue that point of view with you. I do not think you could ever get an entirely nonpolitical board of any kind in Government. I might say this—and I hate to say it

because it sounds like sour grapes and criticism—but down in our district when they start running for the district board it is kind of like running for Governor.

Mr. HOPE. It must be a good job.

Mr. GODLEY. That is not right, Mr. Hope, but it has even gone so far down there that different segments of the system will try to influence the election of a director. In other words, another branch of a section may try to influence who is elected.

It got so bad that the head of the head office in Washington called the head office in our State to intercede in the election, wanting to know why in the world we were not for a certain man. You cannot have a nonpolitical board that way, but we have had it and I think other districts have had it. We have seen bad results from it.

Mr. HOPE. You say the farm organizations have been interfering in the elections. Do you think they will take any greater part in it if we make this change proposed in this legislation?

Mr. GODLEY. No, sir. I just cited that because you said these boards were as pure as they could be from politics. Maybe they are, but you cannot get them pure from politics.

Mr. HOPE. What you are talking about is something that has taken place under the present setup. What I want to know is why you think the proposals in this legislation will make the situation worse. You say it is bad now.

Mr. GODLEY. What prompted my statement is, we are opposed to firing by legislation the personnel of the intermediate credit banks and production credit associations, and we do think it has silenced the opposition to the legislation, and we know it has kept out opposition except the production credit associations which cannot be touched. When you mentioned the board, I wanted to bring out there is politics in electing the officers. I am talking about our district boards.

Mr. HOPE. Are you talking about partisan politics or about a group or person working for one particular person? You cannot go out and elect a board of directors or anything else without having people taking sides and a different group working for one person and another group working for another person, can you?

Mr. GODLEY. Let me say this. Since the Farm Credit System came into being in 1933, I think it is a great compliment to the system, and is one reason we want it left like it is, that the officers in the production credit corporations and in the intermediate credit banks have certainly been nonpartisan. I know some very fine gentlemen who have been officers in the banks and in the corporations all these years under a Democratic administration who have been lifelong Republicans; and on the other hand, I am sure that had a Republican administration been in at the same time, the same thing would have been true.

I am not talking about kicking out all Republicans and putting in all Democrats, or vice versa; but I believe that putting this thing into the bill silenced the opposition to it and there is a possibility that it will leave it open to political appointments.

Mr. HOPE. What suggestions do you make?

Mr. GODLEY. I would suggest that it has already done the harm now, but that is one of the criticism of the bill. It has done the harm by silencing the opposition.

Mr. GATHINGS. Mr. McIntire.

Mr. McINTIRE. We are dealing with corporations that are organized by Federal statute. This bill would provide the steps by which one corporation so organized is terminated. Does it not naturally follow that in the legislation it is appropriate to bring in some provision by which you provide under the law that upon the termination of the corporation, the termination of those employees' services would follow?

Mr. GODLEY. Mr. McIntire, I stated that I am not too familiar with legislation. This is the first time we have ever been confronted with a thing like this. It may be a custom in legislation, but it does not seem proper and in the traditions of our country to legislate people who have served maybe a short time or maybe for 25 or 30 years out of their jobs.

Mr. McINTIRE. It is not uncommon to terminate the services of Government corporations.

Mr. GODLEY. Yes; but to put it in the legislation and announce months ahead that these people are going to be fired, our point is that those who would oppose the legislation shut their mouths because they were afraid they would get their heads chopped off.

Mr. McINTIRE. Not long ago the Congress terminated the Reconstruction Finance Corporation. The proposal to terminate that corporation was one that was under discussion for a long while, and certainly all the employees of the Reconstruction Finance Corporation were placed in no different position than the employees of the production credit corporations.

Mr. GODLEY. Yes; because this is included in the bill and it would presume that if the corporation should be terminated, most certainly the personnel would have to be fired or shifted to another job.

Here it is announced months ahead of time that you are definitely going to lose all your jobs, all of you. Generally, a man wants to keep his job. He says, "I do not like this bill, but if I go out and fight it they will think it is personal on my part and I will be one that will not be rehired."

That is why we object to it.

Mr. HOPE. You are not talking about this bill, because this bill was introduced just a few days ago. You must be talking about the suggestions that were discussed leading up to the introduction of this bill.

Mr. GODLEY. Mr. Hope, we have had the contents of this bill for a good many months, and it was stated in it just like it is stated here.

Mr. HOPE. That was merely something for consideration. It had no official standing until it was introduced as a bill in Congress, it seems to me.

Mr. GODLEY. We think the intermediate credit banks have done a fine job all through these years, discounting paper not only for production credit corporations but for banks and all other financial institutions that qualified. As I say, the banks have done a fine job. But we see nothing fair in forcing the production credit associations to purchase a bank of discount for the use of other financial institutions, and it has been stated by the gentlemen representing those institutions that they do not think it is quite kosher either.

Mr. GATHINGS. Mr. Godley, could you stand by until we come back after lunch?

Mr. GODLEY. I shall be glad to.

Mr. GATHINGS. We will recess until 2:30.
(Thereupon, at 12:30 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

Mr. GATHING. Will you resume, Mr. Godley?

**STATEMENT OF LLOYD GODLEY, OSCEOLA, ARK., PRESIDENT OF THE
SECRETARY-TREASURERS AND PRESIDENTS OF THE ARKANSAS
PRODUCTION CREDIT ASSOCIATIONS—Resumed**

Mr. GODLEY. Mr. Chairman, I will start where I left off in my discussion here, and I will try not to repeat anything I have already said.

We see nothing fair in forcing the production credit association, by legislation, to bear the burden of purchasing a bank of discount for the use of other financial institutions. We are sure that many of the other financial institutions feel the same way about this matter.

Now, the proponents of this bill may claim that the purchase of the Federal intermediate credit bank would be a benefit, not a burden, to the association. With this, we most certainly agree.

I would like to point out to you gentlemen that the average association will put about \$30,000 of its capital stock into the intermediate credit bank, should this bill pass. That is about 14 percent of the total capital stock of our association, and, mind you, this capital would be lost to the associations for a period of, the minimum estimate I believe is, 20 years, and some have estimated it would be 40 to 50 years before we would get any benefit of this capital.

Now, this capital that we put into the bank, of course, is still figured as an asset of the association, but it certainly can't be used as security for production credit loans.

This loss to each production credit association of \$30,000 of its effective capital will mean a loss to all the associations in the Nation of about \$15 million of the effective capital of all of the associations. Those are not exact figures, they are just estimates.

We would like to know how such can promote the continued growth and development of the production credit association.

In order that our associations might become farmer-owned and have sufficient capital left to serve the credit needs of our respective communities, many of us purchased stock far in excess of our needs to qualify our loans, in order that we might be able to pay off all of the corporation stock in our associations.

To us, it does not seem quite fair to pass legislation to force this hard-earned capital out of the Production Credit Associations and into the Intermediate Credit Bank, against the will of the farmers.

Again, they may say, "Well, which farmers?" Well, I mean any group of farmers that has put their money into the capital stock of a Production Credit Association. I don't care if it is just one association. It is not fair to force that stock out of that association into another corporation, without the will of those farmers who put it in there.

Furthermore, we are most vigorously opposed to ownership without control. Should the Production Credit Associations ever own the

Federal Intermediate Credit Bank, they would have no control whatsoever, under this proposed legislation. A board composed, as are our district farm credit boards, can never, by the greatest stretch of the imagination, be considered a production credit board.

Should you gentlemen recommend to the Congress that this bill be passed, we would hope and pray that you would amend it to require that we have a separate board for Production Credit Associations when and if the bank is owned by the Production Credit Associations.

Instead of decentralizing this system, gentlemen, and bringing it closer to the people, as we have heard that it is supposed to do, it actually centralizes, I believe—and I hope I will be corrected if I am wrong in this—as best as I can count, 14 or 15 functions, centralizes them in the Washington office, that are now performed at the district level. I don't see how that could be considered decentralization.

Mr. McINTIRE. Could you at that point just cite a few of those functions which are, by this legislation, being transferred from the district boards to the Federal Farm Credit Bureau in Washington?

Mr. GODLEY. Well, here is one that I believe is a power that is at least held up here, "powers and duties of the Federal Intermediate Credit Bank."

This is a question talking about reemploying these people, that came up this morning. It says:

Such reemployment shall be subject to the approval of the Farm Credit Administration.

Mr. McINTIRE. But is it not true that all of the matters relative to employment within the districts is a matter already delegated to the district board?

Mr. GODLEY. Sir, I don't know about that because it is not in the law, and even though the board and the Governor might delegate to them, life is a fickle thing. If we had another Governor and a different board in this long process that we have, it might change, because they could change the regulations. It is in the law.

That is all that I had reference to. I don't know, I presume a lot of things could be changed by regulation.

Mr. McINTIRE. Doesn't present law provide that the Farm Credit Board will have the jurisdiction which is set forth in this law?

Mr. GODLEY. Which board are you speaking of, sir?

Mr. McINTIRE. I am thinking of the Washington board, whatever jurisdiction they have over employment, I believe, has been delegated to the district boards, but this bill does not change that authority resting in the Farm Credit Board in Washington, from the existing law, does it?

Mr. GODLEY. I don't have the law before me, sir. I discussed this matter with a member of the Federal Board the other day, and I asked him how many of the functions at the district level had been transferred to the Washington office, and he said 15, and I went through here and listed 14, not having the other law to compare with it. I could not be sure, but I listed 14 here, and I could not find the 15th one.

Mr. McINTIRE. What would be another function that this transfers to the district?

Mr. GODLEY (reading): The Governor may at any time require the bank to retire such class A stock, if in his judgement the bank has resources available thereof, and the proceeds of such retirement shall be returned to such revolving fund.

Here is another:

Class B stock shall have a par value of \$5, and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration.

That is not approved by the district—by the Farm Credit Administration.

Mr. McINTIRE. On those points, is it your thought that this bill is providing for a transfer of authority which, at this moment, rests in the district board?

Mr. GODLEY. I think, sir, that you will find considerable of that authority that the corporation has now. Instead of transferring it to the Intermediate Credit Bank under this bill, it transferred it to the Washington office.

I think there is considerable of that authority transferred to the Washington office that is now held by the Corporation. I believe I am correct in that, sir.

Mr. McINTIRE. Don't bother with it any further because that is the point. You have cleared up that point for me.

Mr. GODLEY. The proposed bill provides that after a stock of the Federal Intermediate Credit Bank had been retired, the bank may then retire B stock held by the Production Credit Associations. There is no limit set on the amount of B stock that may be so retired.

Therefore, it could be assumed that at some time some Federal Intermediate Credit Bank might be given authority to retire all the stock owned by the Production Credit Associations, and then that bank would simply be a public trust, and the Production Credit Associations would find themselves, after their capital had been invested there for many years, they would find that they did not, after all, have what they thought they had bought, and that their stock had been retired, and they could have no say-so whatsoever about retirement of that stock.

I don't say that that ever would be done. Under the law, it can be done.

We may be asked the question, What do we propose as an alternative to this bill? Our answer to that would be that we need no legislation at this time. We have a most excellent production credit system.

It has served well the farmers of the Nation for 22 years. When the Farm Credit Act of 1933 was passed, there was no indication that the Congress would ever require or expect the Production Credit Associations to purchase the Federal Intermediate Credit Bank or the Production Credit Corporation.

The farmers have done a magnificent job of conserving the capital appropriated by the Congress to capitalize the associations. Through careful management, the majority of the associations have returned to the Production Credit Corporation all the Government capital, but despite good management, adverse conditions have prevented some of the associations from becoming completely farmer owned.

Now, under this proposed bill, with no choice of their own, they are now being burdened for at least a generation with the greater task

of purchasing the Federal Intermediate Credit Bank, and this, mind you, gentlemen, before they have completed the job of complete farmer ownership of all of the Associations. That has been for a long time kind of popular to preach.

Mr. JOHNSON. Could I ask you a question right there.

How many Production Credit Associations have not completed paying off the Federal Government?

Mr. GODLEY. I believe it is 58, sir.

Mr. JOHNSON. 58 out of 400?

Mr. GODLEY. I think that's right, the last figure I had.

Mr. JOHNSON. What is the total number?

Mr. GODLEY. 498. 58 not paid out.

Mr. JOHNSON. How much Government capital have the 58?

Mr. GODLEY. I think somewhere between two and three million. I am not positive about the exact figure, sir, but somewhere in that neighborhood.

As I said, it is popular to be for getting the Government capital out of the system, but I think it should be more popular to have a system that gives the greatest amount of credit service at the lowest cost to the farmer.

We, as all of us know, are in a severe cost-price squeeze, and we can't see the logic of the Congress, on the one hand, passing a farm bill to relieve the pressure of low farm prices and, on the other hand, passing legislation that will burden the farmer's credit institutions.

I might say here in passing that I was particularly interested this morning that the gentleman who represented the American Bankers Association, who was very emphatic in his belief that farmers are not entitled to very much assistance in the way of Government capital—well, I was reminded that when production credit was set up, there was a very small amount compared to the money we know of nowadays, of \$122 million appropriated for the system. At the same time, I believe I am correct in saying that there was about \$3 billion put in the banks of the United States.

How much of that has been paid back, it may have all been paid back; how much was lost, I do not know. But I do know of one gentleman that was president of a big bank in a State close to us, and he had signs on the highways, and these signs read this way:

Our bank—

and the name of his bank there—

more than 50 percent of the capital stock of our bank is owned by the Federal Government.

He did that to give the people confidence in his bank. In less than 2 years' time he was traveling over the State making speeches to get the Government out of business.

I would like to relate a story that was told by our great friend, Will Rogers. He said he was in New York City with Mr. Jesse Jones when he was Chairman of the Reconstruction Finance Corporation, at a big banquet, and he said that it was a banquet of big industrialists and bankers, and he said every man that got up to make a speech, he spoke on getting the Government out of business. And Will said that Jesse Jones turned his menu card over and wrote on the back side of the amount of money that he had loaned to the firm of each

man that spoke there, out of the RFC, and Will said, "I still have that menu card."

So that is the way that the thing runs.

We farmers have always leaned over backwards to keep from burdening the Federal Government. I just noticed this morning that subsidies to business since 1933, there had been a loss of \$40.8 billion, and the loss on farm subsidies in the whole program during that period was \$1.2 billion, and yet you never see that other in the paper, and you never hear anybody crying about that. It is always the farmer that is being subsidized.

Well, I say this little pittance of capital, gentlemen, that is in our system now, is just chicken feed compared to the \$4,800,000,000 of foreign aid that the President just asked for the other day.

I don't say that as being critical of the President's request. I am sure that he is right, and I am sure that he would not do anything that he did not honestly believe was best for all of the American people. But we honestly believe that the well being of the American farmer is equally as important as our supposed friends across the ocean.

And I think, and we do, the people I represent believe and honestly believe and sincerely believe, and we are not talking just to hear ourselves, that this thing is wrong and that the Capitol at this crucial period in agriculture should be left in the system, we should be left alone like we are.

The Production Credit Corporations and the intermediate credit banks should be steamlined to the minimum of efficiency and then let them alone for awhile, most especially until agriculture is on the more prosperous basis. We are confident that it will reduce the ability of the Production Credit Association to serve the people if this bill is passed. If it means farmer ownership, it will be ownership without control. It will force farmer owned credit institutions to invest their capital in another corporation. It will deprive associations of a type of counsel and supervision that has proven good and dependable, and it may mean, I say may mean, that the Federal intermediate credit bank will eventually be public trust corporation instead of being owned by the Production Credit Association.

Seeing this bill from the point of view of farmers who own the association, we, therefore, can see no good in it whatsoever so far as our association is concerned. It may be good for somebody else but not for us.

All the associations that have been represented before you gentlemen or that have communicated with you in approval of this bill would evidently take stock in the Federal Intermediate Bank if you made this feature optional.

We assume that since they think ownership of such stock will be so advantageous for the Production Credit Association that they would be willing to take stock, even if it was left optional to them. Now, if a little stock is good, no doubt more stock would be better.

If you would make stock ownership optional in this bill, if you do pass it, why we would be just delighted to let some association have the stock that is assigned to us, and we would be willing to take our chances with the other financial institutions without any ownership in the Intermediate Credit Bank but discounting through the bank as we do now. We prefer foregoing our pro rata share in the capital

stock of this bank if this law is passed, and we would be given the opportunity.

I am here on behalf of the people in my State that own 10 percent of the Production Credit Association. I am here to urge you gentlemen not to recommend this bill for passage because we are just as honest as we can possibly be in our conviction that this bill is wrong.

A very fine gentleman asked me awhile ago, he said, "Lloyd, do you honestly believe what you are saying?" I believe it with all my heart and all my soul that everything I have said here, unless I made an erroneous statement is factual and best for the American farmer and for the people who own the Production Credit Association.

Mr. JOHNSON. In your particular association, we had it explained to us yesterday, the percent of stock that each association would have to buy. How much would it cost your association?

Mr. GODLEY. About \$31,000, I believe.

Mr. JOHNSON. That you would have to buy the stock?

Mr. GODLEY. Yes, sir, we have a small association, a one-county association that lends about \$3,200,000 a year in that one county and our prorata share would be something like, as we figure it now, \$31,000 of our stock, and we went out and sold about \$42,000 in order to pay off our Government capital.

Now to turn around and take \$31,000 of that out and put it in another corporation seems to us a little unfair.

Mr. MCINTIRE. Now you say \$31,000. Over what period of time?

Mr. GODLEY. Well, it would be under a three year period. From a certain period of time this bill passed a third of it, then another third the next year, and then another third within a three year period.

Mr. GATHINGS. Any other questions? Thank you, Mr. Godley.

Mr. GODLEY. I sure thank you gentlemen for listening to our story.

Mr. GATHINGS. It is a pleasure to have Mr. Diebold with us. He has had many years background and experience in Production Credit Association work. Mr. Diebold, would you like to make a statement?

STATEMENT OF LLOYD DIEBOLD, HICKORY RIDGE, ARK.

Mr. DIEBOLD. I am Lloyd Diebold of the Cash River Production Association. I am on the executive committee and on the district advisory committee. I represent Jonesburg, Osceola, Forest City and Cash River.

Mr. GATHINGS. In Arkansas?

Mr. DIEBOLD. In Arkansas, yes, sir.

I sanction Mr. Godley on all he said. He just about covered all my notes. I can't see why we would have to call this money in at this time. I would illustrate it this way.

If you have a new car or a tractor that is running good, why drive it into a garage and tear it down to see what is making it run good. We have an organization that is really doing the job and I would like to see you fellows leave it that way.

Mr. MCINTIRE. What is your position relative to the overall objective which I think we can say started out in regional legislation which established the Federal land bank, carrying the overall objective of eventually retiring the Government capital out of the Farm Credit Administration?

In the original land bank legislation that was a part of the act and over a period of years that, of course, has been accomplished. A couple of years ago, or a year ago, we passed an act which provided the vehicle by which the bank for cooperatives could retire their capital out of the bank for cooperative systems. What is your thought as to the objective of eventually retiring the Production Credit and Federal—

Mr. DIEBOLD. Well, we had such a time retiring our local capital, it really put a strain on the association and if we are called on at this time to retire the capital from the Intermediate Credit Bank and if it is true that it will cost another quarter of a cent we are charging six now in nearly all associations in Arkansas, if we go to six and one-quarter or six and a half, we are almost a dead duck because we will lose what we call our gilt-edge business to the banks. If we have to try to get along with fifty- and one-hundred-dollar cotton loans, why we can't do it.

Mr. MCINTIRE. Do you think that the legislation should eventually provide the vehicle by which the Federal Government could be retired out of the system?

Mr. DIEBOLD. Well, it is possible, but if it could be put off for 2 or 3 years, until we get to wheeling again—right now, the squeeze that we are in I think we should retire that capital.

Mr. MCINTIRE. Thank you.

Mr. POAGE. Are there any further questions of Mr. Diebold? If not, we are very much obliged to you, Mr. Diebold.

Mr. DIEBOLD. Thank you for the opportunity of appearing before you.

Mr. POAGE. I believe Mr. Slusher is anxious to catch a plane. We will, therefore, hear from Mr. Slusher next.

STATEMENT OF PAUL V. SLUSHER, PRESIDENT, WARRENSBURG PRODUCTION CREDIT ASSOCIATION, WARRENSBURG, MO.

Mr. CHRISTOPHER. Mr. Chairman, Mr. Slusher comes from my district. He has been with the production credit in one organization or another since its very beginning. He is a very competent man and well posted in the way production credit should be handled. It is a pleasure to introduce him to the gentlemen in the audience and to the members of the committee.

Mr. SLUSHER. My name is Paul Slusher from Lexington, Mo. I am glad to have the privilege of appearing before this committee.

However, being a farmer I will be honest in saying that I do not consider it a pleasure. I live on a farm, a small farm, in Lafayette County. Most of the farms in our territory average from 1 to 500 acres, which would be just a garden or backyard to many of the men that have appeared before this committee.

I have been a member of the Production Credit Association since 1941, have served on the executive committee of that association, a member of the board since 1943, have served on the district committee some 10 or 12 years, and have served as an alternate on one national committee meeting.

The source of my information is coming strictly from the grass roots and creditwise I don't suppose that I am even considered the upper crust of the grass roots. So, if you can lower your thinking,

we will put it the average member, the average director, perhaps, I can explain the situation in our territory.

Our association is what we would consider average of the State of Missouri, and I, as near as I can gather, the sixth district is probably average of the 12 districts in the United States.

Our association is not one of the smallest, nor one of the largest. Our volume at the present time only exceeds \$1,000,000. Our net worth at the present time is some \$400,000.

Several times, at least two or three during the past 3 or 4 years, our members have been called upon to buy extra stock in the association in order that we may become farmer owned. That was a goal that we have been striving for for some time and we reached that goal last fall.

As has been mentioned by Mr. Godley, there are a number of associations, not yet farmer owned. Many of the members in our association have retained their stock and bought additional stock in order that this might be possible, with the hope that there might be dividends paid at some time.

Within the past 2 years, I believe, some \$140,000 of capital stock has been—and that in the form of Government capital—has been withdrawn from our association and, being the average, we are slightly under the \$30,000 mentioned that will be withdrawn again if this bill is passed.

Now to some that might not make a great deal of difference, To us, it might.

We are operating now on a very small margin. Our interest costs are higher than they have ever been.

We are paying, as most of you know, $3\frac{1}{4}$ percent, and we are charging a 6-percent interest rate, which we have been, for some time, and like many other operations, our expenses are higher than they have ever been.

Therefore, we feel that the withdrawing of this \$30,000 if for no other reason, our association might put us in a position that we will be, or could be and possibly we will be, operating in the red, if the interest rate continues at the present rate for the next 3 or 4 years.

And it is my fear that we are not going to be allowed to operate under those conditions very long.

Some associations that have testified here in favor of the bill, no doubt are in a much better financial position. I feel that our association may be compared with some of the members, and those that are not in a good financial position can very quickly run into trouble when capital is withdrawn from the business that they are operating.

I have a prepared statement here. Much of it is repetitious, possibly, to some that has been given. I have noticed quite a bit of dissent both here and at other meetings in listening to the opposition. I have noticed also in the past year or so that most of the opposition to this bill has been a little reluctant in expressing their opinion.

I have attended district meetings, or did attend a district meeting where this bill 201 was proposed or we helped to propose the bill, we thought with the idea of purchasing one of the institutions with further study to be given to the Intermediate Credit Bank.

In my opinion, that has some merit. There were some things I liked about it as much or more than I do about this bill. We will get back to this bill.

Mr. POAGE. May I break in right there? You have referred to your formal statement. I suppose you would like to have it made a part of the record?

Mr. SLUSHER. Yes.

Mr. POAGE. Without objection, it will be made a part of the record. (Mr. Paul V. Slusher's prepared statement is as follows:)

STATEMENT OF PAUL V. SLUSHER, LEXINGTON, MO.

I am Paul Slusher of Lexington, Mo. I am a farmer and member of the Warrensburg Production Credit Association. I have served on the board of directors of the Warrensburg association for the past 16 years and have served as its president since 1943. I have served on the loan committee in my association since 1941.

In addition to my close association with my local production-credit association, I am a member of the sixth district advisory committee. I have served on this committee for approximately 12 years and am presently treasurer of this committee. I furnish this information so the members of this committee may know my background and qualifications to speak on this subject.

I am representing the board of directors of the Warrensburg Production Credit Association and its membership. While I am not authorized to speak for the other associations over the country, I am sure that a large number of them would agree with what I have to say.

We have the greatest respect for the Federal Farm Credit Board and feel that this Board is sincere in its efforts to recommend acceptable changes in our great production-credit system. We do not believe there is anywhere near unanimous acceptance of this proposed bill. Later in my testimony, I shall present evidence that there is a great deal of opposition to this bill to merge the production-credit corporations into the FICB's, from other districts, as well as our own St. Louis credit district. Some proponents of this bill contend that the abolition of the Production Credit Corporation is a great step forward. They say that we needed supervision in 1933 but very little supervision today is necessary. We agree that the degree of supervision can certainly be, and has been, reduced. It has been under the constructive supervision and guidance of the production-credit corporations that our great production-credit system has grown to be so important to American agriculture. The Federal intermediate credit banks were in operation 10 years prior to the birth of the production-credit system, but were unable to serve agriculture because the various agricultural credit agencies established to syphon the money from the Federal intermediate credit bank to the local farmer did not serve the farmer due to lack of supervision. One of the greatest depressions of history was experienced in the 1930's. Through the foresight of our great Congress of 1933, the production-credit system was born. Through this noble act of that Congress, and under the constructive supervision and guidance of our production-credit corporations, the local PCA's rendered an invaluable service to the American farmers by providing the right kind of credit, under the terms needed to assist him in withstanding this unprecedented depression of the 1930's. In our opinion, the present cost-price squeeze in agriculture in most sections of the country is comparable to the depression of the 1930's. The production-credit associations today are providing a credit service for its members that was not done by the various financing institutions prior to the origin of the production-credit system. In our opinion, the supervision provided by the production-credit corporations has made this great service possible.

Since the majority of the production-credit associations have only recently become completely farmer owned, the complications involved, in our opinion, make it extremely important that we have access to the continued services and guidance of the people who are familiar with our problems. In our opinion, no one can offer this assistance as well as the production-credit corporations. We believe it advisable to streamline the operations of the production-credit corporations and FICB's. We understand this is to be done regardless of any legislation. We have been informed that the Federal Intermediate Credit Bank is to become strictly a bank of discount, rather than being a primary lender, yet the credit examinations of the associations will be made by the bank, if this bill is passed.

It is not unreasonable to assume that by this procedure the bank may eventually set the credit policies rather than leaving this decision to the local boards of directors in the PCA's. It is our opinion that the expenses of the Production Credit Corporation and the Federal Intermediate Credit Bank can be reduced substantially and still keep the two units separate. This, to us, appears to be both logical and appropriate.

It is suggested from some sources that it will be an advantage to the production-credit associations to increase the assets of the Federal intermediate credit banks by merging the PCC's and the FICB's, and the stock investment that would be required by the production-credit associations. With this, we cannot agree. The bank was created for any lending organization serving agriculture, and they still are permitted to discount paper for these other institutions. We have no objection to this feature but we think it unfair to require the production-credit associations to assume the burden of retiring the Government capital from the Federal Intermediate Credit Bank. The average PCA would be required within 24 months after the enactment of this bill, to invest some \$30,000 of its capital structure to purchase stock in the consolidated institution. This \$30,000 could not be used by the association to support loans for discount purposes and for all practical purposes, would be a "frozen" asset. This \$30,000 invested in bonds would earn the association \$750 per year. By discounting on a 7 to 1 ratio, this "frozen" \$30,000 would reduce by \$210,000 the amount of dollars the association could loan. Could this be called an advantage to a production-credit association? When a PCA member has a "frozen" loan, he doesn't feel that it is an advantage to him—neither could it be considered an advantage to a production-credit association to have \$30,000 "frozen" capital.

I, for one, have a substantial investment in production credit A and B stock. I willingly purchased this stock to help increase the capital structure of my association and hastened the day we could reach the goal of 100 percent farmer ownership. Many other farmers did likewise. We did not purchase this stock with the intentions of it being legislated into some other corporation other than our own local PCA. We do not consider it reasonable to be required to do so now.

During this period of economic distress in agriculture, we do not consider it advisable to withdraw the Government capital from the Federal Intermediate Credit Bank and the Production Credit Corporation. This would create a further financial hardship on farmers at a time when we cannot withstand many further adversities. It is completely unreasonable to require, through legislation, the PCA's to invest their hard-earned capital in the Federal intermediate credit banks, which serve as banks of discount for all other agricultural lending organizations. The commercial banks are permitted to discount paper with the FICB by meeting their requirements. Recently the Farm Credit Administration approached the Board of Governors of the Federal Reserve System in an effort to get the Federal Reserve banks to purchase FICB debentures so that PCA's could realize a more favorable discount rate. This request was apparently declined, or at least discouraged. The Federal Reserve people indicated that their duty lies in regulating the supply of credit for the general economy of the country, rather than being a source of credit. Why, then, should the services of the FICB be available to commercial banks? They no doubt will use the services of the FICB only at times of emergency, yet the PCA's would be required to keep these services available to other lenders, in both good times and bad.

We do not believe this committee can honestly recommend to Congress the passage of this bill, which would place an undue financial burden on the farmers' shoulders. We honestly believe that if it were not for the stabilizing effect of production credit associations, the great majority of farmers would be paying a much higher interest rate for their money. A PCA member, regardless of his financial position, pays a standard interest rate. All PCA members in an association pay the same rate on the unpaid principal balance, regardless of social standing, financial position, or family connections. This is not true with many lenders. Just check the chattel records at the courthouses over the country. The man with the strong financial statement, in many cases, will be paying possibly 6 percent, while the small farmer is paying 8 percent, or higher.

The National Farm Loan Association and the Bank for Cooperatives are not presently discounting loans with the Federal intermediate credit bank in our sixth district. Yet these men on the Board have just as much authority as the production credit elected directors. At a statewide meeting of the Missouri directors and secretaries held at Jefferson City, Mo., on April 9, 1956, a motion was placed before the group to amend the present bill by inserting a change of the name of the Federal Intermediate Credit bank to the Production Credit Bank of

St. Louis. We had been informed at this meeting that if this bill did not pass that Congress would write one for us. With this thinking uppermost in the minds of those present, the motion carried. A goodly number of the directors, however, had already left the meeting before the motion was voted upon, so a true representative vote could not be obtained.

I have here with me correspondence from a number of associations in Missouri that have cast an affirmative vote on the motion but are still vigorously opposed to the bill to consolidate the FICB's and PCC's.

We, in the sixth farm-credit district, are not alone in our opinion that this bill, if passed, would be detrimental to the production-credit system, and the farmers at the grassroots level. We have received correspondence from Tennessee, Mississippi, Louisiana, New Mexico, Alabama, and Iowa, all of which are opposed to this bill. I understand that there are a number of other States where there is a great deal of opposition. No doubt some members of this committee have received communications from these other associations.

Certainly, some of the amendments proposed have merit, such as changing the name from Federal Intermediate Credit Bank to Production Credit Bank and in our opinion, has influenced the thinking of some associations in various districts. An expression from the sixth district, including the sixth district farm-credit board, vigorously opposed the recommendations of the Bureau of the Budget to return the surplus of the FICB's and PCC's to the Government.

It is our sincere opinion that for the benefit of the farmers at the grass-roots level, any legislation should be deferred for at least 5 years. We hope and pray that this committee will see fit to postpone any legislative action pertaining to the production-credit system at this time. We are sure that a delay of any legislation would be in the interests of the American farmer at this time.

Mr. POAGE. Without objection, I would like to put in the record certain communications that have come to the clerk.

(The documents above referred to are as follows:)

APRIL 18, 1956.

CLERK OF AGRICULTURE COMMITTEE

House Office Building, Washington, D. C.:

Regret short notice as previous commitments make it impossible for me to appear at hearing on farm credit bill. Our corporation is a part of the National Livestock Producers Association. We endorse and support the testimony presented by P. O. Wilson, secretary manager of the National Livestock Producers Credit Corp.

By J. A. LAMB.

Executive Vice President and Manager.

MABEL C. DOWNEY,

*Clerk of House Committee on Agriculture,
House Office Building, Washington, D. C.:*

Re tel April 12th and your reply. It is now impossible for me to attend hearing Tri-State Livestock Credit Corporation, San Francisco, Calif., is vitally interested in and opposed to provisions of H. R. 10285. We support and endorse testimony which will be given by P. O. Wilson, secretary and manager of National Livestock Producers Association.

J. A. WHITE, Jr.,

Member, Tri-State Livestock Credit Corp.

APRIL 19, 1956.

CLERK OF HOUSE COMMITTEE ON AGRICULTURE,

House Office Building, Washington, D. C.:

We have definite interest in H. R. 10285. Regret inability to testify due to short notice. We adopt and support the testimony given by the National Livestock Producers Association of Chicago.

NATIONAL LIVESTOCK CREDIT CORP.,

Oklahoma City, Okla.

APRIL 19, 1956.

CLERK OF HOUSE AGRICULTURE COMMITTEE,
House Office Building, Washington, D. C.:

Wish to support testimony of P. O. Wilson representing National Livestock Producers Association and subsidiaries and L. D. Campbell, secretary of Committee of Texas, at committee hearing for H. R. 10285, S. bill 3550 and other pending bills.

J. W. MITCHELL,
Manager, National Finance Credit Corp. of Texas.

PRODUCERS LIVE STOCK CORP.,
Chicago, Ill.

To Congressman Cooley and Members of House Committee on Agriculture:

The Producers Live Stock Credit Corp., of Chicago, lends money for cattle and sheep production to farmers and ranchers over 12 Middle Western States. Since organization in April 1924, the Producers Live Stock Credit Corp. has discounted with the Federal Intermediate Credit Bank of St. Louis, and is the largest single discounter with that bank.

Because we feel that the proposed legislation is discriminatory and unsound, we definitely oppose it. We oppose this bill for the following reasons:

1. We object to paying part of the cost of supervision of the production credit associations. There seems to be no precedent for this, as the other financing concerns of this country pay for their own supervision.

2. Other financing institutions will, while acquiring participation certificates, have no vote in Federal intermediate credit bank affairs. The voting stock is all to be held eventually by the production credit associations. This is gross discrimination.

3. Upon liquidation, the surplus accumulated prior to this bill becoming law will go to the production credit associations as B stockholders. This surplus actually belongs to the United States Government. However, if it is not to revert to the Government, then it should be distributed equitably to the users, including both production credit associations and the other financing institutions. The other financing institutions have been contributing to this surplus since 1923.

4. The collateral requirements should be uniform. Any restrictions should be based on the qualifications of the farmer-borrower and the financial condition of the discounting agency. The collateral requirements should not be based on whether the discounting agency happens to be classified as a production credit association, or as an other financing institution. These differences in collateral are set forth in sections 202a (1) and (2), and section 6 (i) (1).

5. Terminating employing of Federal intermediate credit bank employees is unnecessary as the Federal intermediate credit banks are not being liquidated as are the production credit corporations.

6. This bill requires the purchasers to pay for 15 percent of the stock within a period of 2 years. Under present agricultural conditions this requirement will be difficult to accomplish unless the Governor, under powers granted, uses the revolving fund to provide many of the purchasers with the funds needed to finance the purchase.

All of the above objections to the bill, however, are secondary. The principal objection we have is changing the status of the Federal intermediate credit bank system at this time. We believe this will increase rates to farm and rancher users. We recommend that this bill be rejected and the Federal intermediate credit banks maintained on their present basis.

The Federal intermediate credit bank system has an available reputation, acquired from 33 years of furnishing sound, dependable, and effective agricultural credit throughout the country at minimum cost to the Government. This reputation is reflected in the confidence of the investing public in the Federal intermediate credit banks' public offering of debentures.

The Federal intermediate credit bank program should not be disturbed at this critical period. We recommend the rejection of this bill. We have read the testimony of P. O. Wilson, secretary-manager of National Live Stock Producers Association, and we are in complete agreement with that statement and endorse it in its entirety.

Respectfully yours,

JEROME J. BURKE, Secretary-Manager.

Dated April 18, 1956.

APRIL 19, 1956.

HON. CLIFFORD MCINTIRE,
House of Representatives,
Washington, D. C.:

Board of directors, Central Jersey Farmers Cooperative Credit Association unanimously asks that you record in their behalf full support of H. R. 10285, a bill to merge production credit corporations in Federal Intermediate Credit Banks. It is our understanding this bill best embodies the recommendations made at all levels of the Farm Credit System, and as such we ask you bend every effort for quick passage.

CENTRAL JERSEY FARMERS COOPERATIVE CREDIT ASSOCIATION,
C. A. O'REILLY, *Assistant Secretary*.

Mr. JOHNSON. Right at this point, I want to ask the gentleman a question. You referred to the capital to be drawn from your local production credit. Do you mean the stock that you would have to purchase? Is there any other capital proposed to be drawn out by this legislation?

Mr. SLUSHER. I am talking about the capital stock, this \$30,000 average capital that will be withdrawn from the association.

Mr. JOHNSON. That you would have to purchase in stock?

Mr. SLUSHER. Yes.

Mr. JOHNSON. How much do you estimate that would curtail your loaning ability?

Mr. SLUSHER. That would depend, naturally. Now, as I understand it, it does not affect the discount ratio which I learned here is 10 to 1. I never heard of more than 5 to 1 in our association until the past 6 months.

Mr. JOHNSON. Six to one, wasn't it?

Mr. SLUSHER. I have heard 10 to 1 mentioned, have I not?

Mr. POAGE. About 6 to 1 is about all you have been doing, is that right?

Mr. SLUSHER. We have been following a 5 to 1 basis, at least that is what I have been told.

Getting back to the question, my understanding is that this money being withdrawn will not affect the discount ratio, but it cannot be used to discount the paper with the Intermediate Credit Bank.

For example, we have had a \$2 million volume in our association which, as I understand, on a 5 to 1 basis requires \$400,000 capital structure.

Suppose we build back to the \$2 million in volume, the \$30,000 is withdrawn, then that will affect the discount ratio with the Intermediate Credit Bank, as we cannot use that \$30,000 to discount our paper.

Mr. POAGE. Let me help you just a little right here.

Mr. SLUSHER. It would amount to only 200,000.

Mr. POAGE. Let's find out.

Is it true that the Farm Credit Administration would approve 6 to 1 lending ratio?

Mr. TOOTELL. That depends.

Mr. Chairman, actually there are some associations that for periods of time exceed the 6 to 1. I think the average right now for the United States is seven and a quarter.

Mr. MILES. 10 to 1 is the legal limit, but they are now operating, most of them, on around a 5 to 1 basis.

Mr. MCINTIRE. Doesn't that ratio vary somewhat as to what might be the intensity of risk in a producing area?

Mr. MILES. There are some differences in districts, and this does not apply to all of them, but there are some districts that do review the general situation in each association from year to year, and the Intermediate Credit Bank decides upon what ratio it is willing to accept paper from those particular associations. But the legal limit, they can go up to 10 to 1, as far as the law is concerned.

Mr. SLUSHER. In my understanding of the situation; of course, as you said, it would depend on, I suppose I should put it, the financial position of the association.

And, I as I said, our association is small, and therefore we might be affected more than the association with more capital.

Mr. McINTIRE. Mr. Chairman, I would like to clear up one point in my mind; getting back to this lending capacity of your association in relation to your investment in the stock of this corporation.

I was laboring under the impression that this would not affect the lending ratio of your association, but that this stock in the merged corporation, in which you would be required to make this investment, could not in itself be used as collateral to secure—it would not affect your ratio of 1 to 5 or 1 to 5½ or 1 to 4—

Mr. SLUSHER. I agree with that.

Mr. McINTIRE (continuing). Which is based, of course, on your capital structure.

Mr. SLUSHER. I agree with that. But as I understand it, we cannot use that to discount our paper, that 30,000 with the Intermediate Credit Bank.

Mr. JOHNSON. Have you ever been able to put up your stock in your production credit as collateral to discount paper? Don't you have to put up the particular mortgages?

Mr. SLUSHER. Yes.

But that capital is withdrawn from our association, as I understand it, and put into this merged institution as an asset, but we cannot use it to discount our paper with the bank, with the Intermediate Credit Bank.

Now, if I am wrong, I would be glad to have these gentlemen tell me.

Mr. JOHNSON. Wouldn't you have 30,000 less to lend?

Mr. SLUSHER. No, sir; on a 5 to 1 basis, we wouldn't.

Mr. JOHNSON. I wish somebody would clear us upon this.

Mr. MILES. I believe I can clear that point.

The only effect that that \$30,000 investment—Mr. Slusher's association has, I believe, \$400,000 net worth; is that right?

Mr. SLUSHER. That's right.

Mr. MILES. I don't know what percent of that is invested in Government bonds, perhaps 80 percent of it, \$300,000 in Government bonds, or something like that?

Mr. SLUSHER. I couldn't give you that exact figure.

Mr. MILES. Now, if they have \$300,000 in bonds, they can pledge those bonds to the Intermediate Credit Bank and borrow back on them, dollar for dollar, to carry loans in their association that might not be acceptable for discount, or to process loans.

It is their own money that they use in processing loans, until they can get them to the bank and get them discounted. So, actually, the only effect that this \$30,000 investment in this merged institution would have on their lending operations would be in case they had so

much paper not acceptable for discount, that it would reduce their direct borrowing from the bank by \$30,000, in order to carry the paper.

But so long as they make loans that are acceptable for discount, it would not affect their ability to lend at all.

MR. POAGE. You may proceed, Mr. Slusher.

MR. SLUSHER. There are a number of things, one which I would like to mention at this time, that have caused our association—and I might put it, our State, which up until April the 9th, as near as we could get, from the information we could get—was opposed very much to this bill, with the exception of one association which first said they were opposed and said they would go along with those that were in opposition.

There was one association divided, one association noncommittal. The rest of the associations were opposed until April the 9th.

After a statewide meeting held by the directors, an amendment was made at the latter part of the meeting, to go on record favoring an amendment to this bill—I suppose it is 10285—changing the name from the Intermediate Credit Bank to the Production Credit Bank. This motion carried. At that time only one association voted in opposition to the change of the name.

I asked the question at that particular time, that in case the name could not be changed or other amendments were added, would the associations of the State of Missouri be in favor of the bill. They said no, at that time.

I, as most of you know, was selected to represent the State of Missouri and its association, in opposition to this bill. We sent letters to every association, I believe, in the United States, asking for their opinions and, as a result we received more letters in opposition than we did in favor.

However, we did not receive more than 40 of 50 letters. Most of those that were favoring the bill were from Texas.

MR. GATHINGS. Mr. Chairman, I wonder if we could not get that tabulated for the record.

Could you furnish us in detail of the 40 or 45 that you did receive, how many were favorable to the legislation, how many were opposed, and how many were on the fence?

MR. SLUSHER. I have, I believe, all the letters that were in opposition, but I would have to forward the Texas letters to you, to give you that information.

(The information requested above is as follows:)

HIGGINSVILLE, Mo., APRIL 23, 1956.

Hon. E. C. GATHINGS,
House of Representatives,
Washington, D. C.:

In reply to question at subcommittee hearing Friday, April 20, regarding reply to letter sent 498 PCA's by Lloyd Godley and Paul Slusher. Replies as follows: 50 PCA's oppose merger; 28 PCA's favor.

Appreciate your hospitality and ask continued support in delaying any legislation.

PAUL V. SLUSHER,
Lexington, Mo.

MR. GATHINGS. You don't know just what that would amount to in percentage, do you, of the total acknowledgments?

MR. SLUSHER. As I mentioned, there were about 60 percent opposed that we received, and only about 50 percent in favor, but it was a very

small portion of the number of the associations involved in the United States.

Mr. GATHINGS. Many did not answer.

Mr. SLUSHER. And many of these letters have been conflicting statements, as Mr. Godley had presented from other sources.

Mr. GATHINGS. What is the date of that letter? When did you make that poll?

Mr. SLUSHER. Our first letter went out, I believe, in March, March 1.

Mr. GATHINGS. Those replies are dated about the middle of March, or the 10th of March?

Mr. SLUSHER. I can give those to you. One is April 9, one April 16, March 6, March 5. They came out within a week or so after those letters were sent out; March 17, March 17, March 26, 22, 29, 3, and so on.

Mr. GATHINGS. Do you have any other recommendations to make to the committee, other than change the name?

Mr. SLUSHER. That is the only recommendation that I have at the present time for this bill.

Mr. GATHINGS. Is there something that can be salvaged out of this bill that could be passed? What would you recommend?

Mr. SLUSHER. Well, our State went on record as opposing the bill entirely, or delaying action, any action on the bill, for at least 5 years.

As I said, we have been in a state of confusion, more or less, after all these meetings, and this last one ended up the same way.

Mr. JOHNSON. Is the main opposition coming from the fact that you have to buy this stock? Is that what is causing most of the trouble?

Mr. SLUSHER. No, sir.

I have one other point that I would like to mention at this time.

As we see it, the PCA's would be buying some 85 to 90 percent of the merged institution. We have had arguments for and against controlling interests.

However, it should be, and will be, as I understand it, handled through our district board. I don't believe that any of your gentlemen or any banking institution would invest 85 or 90 percent in a financial institution, and only have two-sevenths of the controlling vote in that institution, and that, in my opinion, is what we would have under this set-up.

Mr. McINTIRE. Mr. Chairman, could I ask a question at that point.

Is it your observation in Missouri that the question of ownership, or the question of representation on the board, is a point of discussion as among land bank borrowers or among borrowers who use, through their cooperatives, the services of the Bank for Cooperatives?

I mean, as you have associated yourself within the farm credit family, do you hear any comment from borrowers of land banks through the National Farmer Owner Associations of the inadequacy of their representation on the board, and regarding the Bank for Cooperatives, of the inadequacy of their representation on the Board, district board?

Mr. SLUSHER. We have not, and yet I think that we are in a different position than we would be if we were in their position and they were in ours. In other words, if they were buying 90 percent of it and we had as much vote as they did—

Mr. McINTIRE. Well, let's take the National Farm Owners Association. It is not a question of 90 percent there. They own it all, and they have only a partial representation on the board.

Mr. SLUSHER. They own all of their——

Mr. McINTIRE. They own all of their structures.

Mr. SLUSHER. Yes, that is true.

Mr. McINTIRE. And still, on the district board they have only 2 out of 7, and I was wondering if, as you have analyzed this particular problem, if you have found that these other vehicles, the Bank for Cooperatives and their customers or clients and members, if they have found inadequate opportunity to be appropriately represented in this board make-up in the district by the fact they only have 2 out of the 7.

Mr. SLUSHER. I have heard no complaint on their part, no.

Mr. McINTIRE. But do you feel that their situation is not analogous with yours, in that there would be a problem in connection with the PCA's, if they just had 2 on the board of 7?

Mr. SLUSHER. Yes.

I bring that up, gentlemen. It has been demonstrated in our district, and I like to disregard personalities, but it has been demonstrated in our district that a decision was made at one time—whether it was right or wrong—by PCA representatives.

The other five members on the board opposed their decision and went on record as such, which, to me, indicated that PCA's had no control of their interest on that board, which was to buy this merged institution.

Mr. POAGE. Does that cover your statement?

Mr. SLUSHER. Does that conclude, you say?

Mr. POAGE. Yes.

Mr. SLUSHER. If I might just sum this up?

Mr. POAGE. Certainly. I don't want to cut you off.

Mr. SLUSHER. Gentlemen, I have perhaps taken more time by rambling, but I have 3 or 4 statements I would like to make, or leave with you.

Mr. POAGE. We will be glad to have you make them.

Mr. SLUSHER. One of the reasons, of course, has been mentioned by Mr. Godley, that we are now in a cost-price squeeze. We feel that this would be an undue hardship on our Association.

As I have mentioned, the capital which the Association would be required to invest in the Intermediate Credit Bank would reduce the capital structure of the Association by a like amount.

This investment could not be used to support the lending activities of the association with its source of discount. It is felt that during the period of economic distress, the farmers of PCA's may need more Government support and not less.

The amount of Government money now in the system is minor. The legislation, in our opinion, would tend to centralize some of the functions in the Washington office that are now benignly performed on the local level.

The Production Credit Corporation has done a very outstanding job in supervising the Production Credit Associations. They have grown and progressed under this type of supervision. Under complete farmer ownership, we feel their services are needed more than ever.

We seriously oppose ownership of the Federal Intermediate Credit Bank without having more control than this bill would provide. The Production Credit Associations are using 85 to 90 percent of the banks' loans with the UFI's using the balance.

We have only two elected representatives from the Production Credit Association on the district board, which is a policymaking body for the PCA's and the Intermediate Credit Bank. Yet, they have two representatives from each of their institutions, which have as much control as the PCA elected directors.

We doubt that a bank of discount can successfully be the supervisory agency of the Associations without eventually dictating the lending policy, or even the lending of the Association.

We believe that the PCC is an important part of the system to intercede on problems between the associations and the Intermediate Credit Bank.

It was suggested at a meeting that the Arthur Anderson firm study the costs to eliminate expenses, but it was evident that the Federal Board had already made up their minds to consolidate the two groups. There was little, if anything, in the report on conserving expenses that could not be done, as we see it, and still maintain the two separate institutions.

In our opinion, this is not time for consolidation of the two groups, or added expenses to the Associations. Therefore, we ask you to delay any further action on this legislation for at least another 5 years, with further consideration and study to be given to the matter.

Mr. POAGE. We thank you very much, Mr. Slusher.

Mr. MATHEWS. Mr. Chairman, could I have just a minute? Mr. Slusher of Missouri, here, has made a statement that is in conflict with the resolution we received at the Federal Board, from the Missouri association.

Mr. POAGE. I understood that. At least we had a report yesterday on that area that there was or is some difference there. But we certainly will take into consideration a difference of opinion. We will be glad to have you make any statement you wish.

Mr. MATHEWS. The only reason I care to make a statement is because he made a statement for all the Associations that were present at this conference.

Mr. POAGE. We understand that and we understand the advisory board told us a different story. We know there is a difference of opinion there.

Mr. MATHEWS. This is not an opinion, this is a resolution, Mr. Chairman, that they sent the Federal Board a copy of.

Mr. POAGE. We will be glad to have it. Go right ahead, Mr. Matthews.

Mr. MATTHEWS. In a conference of directors of the Missouri Credit Production Associations held at Jefferson City, Mo., on April 9, 1956:

Resolved, That this conference does hereby approve, endorse and support H. R. 10285 and S. 3549 now pending in the Congress of the United States, and dealing with the proposed merger or consolidation of Production Credit Corporations and Federal Intermediate Credit Banks; that the Conference urges that appropriate action be taken in the Committees of Congress to change the name of the merged or consolidated institution to the Production Credit Bank of ----- the name to include the name of the city in which the principal office of the

institution is located; that the representative of this district on the PCA National Advisory Committee be authorized and requested on behalf of the Conference to lend active support to such legislation and to take appropriate steps to assist in accomplishing the change of name indicated, and that copies of this resolution be furnished to the Federal Farm Credit Board.

Mr. SLUSHER. Signed by whom, please?

Mr. POAGE. Who is it from?

Mr. MATTHEWS. It was a copy of a resolution that was sent to the Federal Farm Credit Board.

Mr. POAGE. Who sent it? That is what we are asking.

Mr. TOOTELL. Sent by the president of the Production Credit Corporation of St. Louis, sir. I assume that he or one of the officers of the corporation served as secretary, perhaps, at that meeting. Mr. Slusher, you would know that.

Mr. SLUSHER. Gentlemen, I might state there have been differences of opinion at our State meeting. I acted as chairman. Of course, I was not secretary. But if a motion was presented to change the name, I believe Mr. Guy Head was acting secretary at that time, and it is my belief that the man that presented the motion did not present it in those words.

Mr. POAGE. It seems to me it is perfectly clear to the committee there is a difference of opinion that exists in the State of Missouri, and beyond that I don't know what difference it makes to us. We are not taking a poll. We are trying to listen to the reasons why some people were for and why some were against. We realize that there is a difference of opinion in the State of Missouri.

Mr. SLUSHER. I would like to add, Mr. Chairman, that up until April the 9th I was elected president of the Missouri Presidents and Secretary-Treasurers Associations to represent the State of Missouri in their attitude on this bill, and up until that time I was instructed to give you the report that I have given you as best I could, but on April the 9th this amendment was proposed, which left us in a rather embarrassing position, and I do have some information from various associations in the district that still feel as our district does, but today I am reporting for our association and possibly 4 or 5 other associations that have instructed me to present this information to you.

Mr. POAGE. Mr. Slusher, we are not challenging anybody's good faith. You are here reporting what your association asked.

Mr. Matthews reported what the organization of State associations sent in, and your association does not happen to represent all of the people in the State of Missouri, and yesterday we had a statement that I believe Illinois was solid for this bill, there are a few associations in Arkansas against it, that Missouri was split. I think that is about the way the report came in to us yesterday.

Mr. SLUSHER. May I ask this question? You say you got the information that Illinois was 100 percent for it?

Mr. POAGE. That is my recollection. I may be wrong, I don't remember.

Mr. SLUSHER. I have testimony that they are not.

Mr. POAGE. All right, we are not going into a poll.

Mr. SLUSHER. I would like to express my appreciation for appearing here. That is my personal opinion. I am glad to have had the opportunity to express it. I am glad that we don't all see alike. I hope that there will be no ill feeling, and whatever you gentlemen decide we will work with.

Mr. POAGE. We are delighted to have everybody express their opinions. We want to get the differences of opinion. That is why we are holding the meeting.

If we did not feel that there was difference of opinion, we would not call you up here, because if we knew everybody was in agreement, it would be a very easy matter for us.

Now, you may proceed, Mr. Wilson. We shall be glad to hear from you.

**STATEMENT OF P. O. WILSON, SECRETARY-GENERAL MANAGER,
NATIONAL LIVE STOCK PRODUCERS ASSOCIATION, CHICAGO ILL.**

Mr. WILSON. Mr. Chairman and members of the committee, I have a prepared statement. I am going to stick to it in order to save time. When I finish with that, I have additional comments I would like to file with the committee. I will not take time to go through all the other material.

My name is P. O. Wilson. I am secretary-general manager of the National Live Stock Producers Association.

First, we wish to express our sincere appreciation for this opportunity to appear and present the view of the National Live Stock Producers Association on the farm credit bill, H. R. 10285 and the other companion bills.

The National Live Stock Producers Association has had a continuing interest in and experience with the Federal Intermediate Credit Bank system since April of 1924. This you will recognize as being shortly after the original act was passed which established the 12 intermediate credit banks. The National Live Stock Producers Association had been organized early in 1922 for the purpose of developing cooperative livestock sales agencies to represent livestock sales agencies to represent livestock producers in the sale of their livestock on the principal markets of the Nation.

In the short period of 2 years between 1922 and 1924, the organization had found that there existed a real need on the part of livestock producers and feeders for a sound, reliable source of credit. They therefore appreciated the value of the original Federal Intermediate Credit Bank Act and started plans for development of credit corporations which were necessary if their livestock producer and feeder members were to be afforded the use of discount privileges provided in this act.

Our first credit corporation, known as Producers Livestock Credit Corp., opened for business at St. Louis, Mo., in April of 1924. You might be interested to know that we raised \$10,000 to start with. It was a small start.

Our organization expanded this phase of its business in 1930 when, with the assistance of the Federal Farm Board—I might add there that it was almost with the insistence of the Federal Farm Board that we expanded—it organized four additional credit corporations, namely, National Finance Credit Corporation of Texas, Fort Worth, Tex.; National Live Stock Credit Corp, Oklahoma City, Okla.; Producers Livestock Credit Corp., Denver, Colo.; and Tri-State Livestock Credit Corp., San Francisco, Calif. It also made a substantial investment in the stock of the Wasatch Livestock Loan Co., Salt Lake

City, Utah—not known as Producers Livestock Loan Co.—a credit agency which had been organized in 1924 by 99 livestock producers of the Salt Lake area.

With this brief statement concerning our history in the credit field you will recognize that the National Live Stock Producers Association now has a direct interest in six credit units. All of these are owned on a stock basis by National Live Stock Producers Association, its member cooperative live-stock marketing associations, and the live-stock producers and feeders whom they serve.

The volume handled by these six credit units, while not large, varies from around \$30 million to \$45 million. That was on the books at one time. At the end of 1955 it stood at \$33 million.

Starting in 1924 we have observed the growth and expansion of the services of the Federal intermediate credit banks. We were users of the banks' discount privileges when the discount rates were as high as 5½ percent. As the investing public gained confidence in the system and with the increased volume which was brought into the system through the organization of the production-credit associations in 1933, we have been favorably impressed with the improvement in discount rates, which reached a low of 1½ percent.

Since that time they have been trending up, we are back now to 3¼, and possibly they will go a half.

At this point in my prepared statement, Mr. Chairman, I would like to make it very clear that we feel that the organization of the Production Credit Association was a very forward step in this program. We believe that the volume which has been brought into the intermediate credit banks, not only by the PCA's but also by those OFI's which are cooperative, and also those OFI's which are privately owned or owned by other corporations, has all contributed to the success of this Federal Intermediate Credit Bank service.

The discount rates which our credit corporations pay are of vital importance to our farmer and rancher borrowers. Volume of loans, plus sound operating policies observed by the banks have played a very definite part in determining the cost of money which was secured from the investing public through the sale of debentures by the banks. As the banks have proven their soundness, and volume of loans for discount have increased, there has been a trend toward more satisfactory discount rates for our farm and ranch users.

This bill, H. R. 10285, and accompanying bills, is presented by the Federal Farm Credit Board to meet a directive from Congress which, we understand, is supposed to tie into the Government's economy move. It is our understanding that Congress wishes to take the Government out of the farm-credit business and dispose of the stockholdings which the Federal Government now has in the farm-credit system. This is to be accomplished through sale of the stock in the various banks in the farm credit system to their users. This was the procedure followed in the case of the Federal land banks, where the stock which was owned in the Federal land banks was sold to the users of the banks, namely, the farm loan associations. Last year the same principle was followed in amending the Farm Credit Act when legislation was approved providing for the sale of the stock owned by the Federal Government in the cooperative banks to the users of these banks.

Mr. POAGE. May I ask you to give us a little history, because as I said this morning, there are a lot of things I don't know, and I don't

remember the history of it, either. You referred to the land banks. Now, we started this system of land-bank credit with the idea that we would have two parallel systems, as I understand it, we would have these land banks operating, and we would have what was known as joint stock land banks privately owned operating in parallel with the land banks.

Now, I have borrowed money from some of those joint stock land banks, or, at least, I have bought pieces of property where there was a joint stock land-bank loan on them, and they all washed out, every one of them, as I recall it. Isn't that right?

Mr. WILSON. I don't know. I think they did, but I couldn't answer you directly; I do not know.

Mr. POAGE. I suppose they were on a little higher level, I suppose they were comparable to the land banks themselves, isn't that right, although they made direct loans?

Mr. WILSON. I don't get your connection here.

Mr. POAGE. The connection is simply this—and maybe I am all wrong—but as I understand it, the Federal Government started out with the idea that we would have two systems, one in which the United States Government was putting up the capital, which we hoped some day would become mutualized, that was through the land banks, and the National Farm Loan Association. We did the same thing on Intermediate Credit, we set up the idea—at least in 1933 we decided that we couldn't rely on privately owned institutions entirely, so we decided we had to establish a bunch of mutually owned institutions there.

So we still have this parallel with the Intermediate credit bank institutions, that are entirely controlled, entirely under the supervision of the Farm Credit Administration, and institutions that are not. So all I am trying to get at is, isn't it rather inaccurate to suggest that the land banks have operated as you want these intermediate credit banks to operate?

Mr. WILSON. The only point that I am making here, Mr. Poage, is that the act which took the Government out of the capitalization of the land banks provided for the sale of that stock to the users of the land banks.

Mr. POAGE. And the privately owned joint stock banks had already washed out?

Mr. WILSON. I want to stick, if I may, to the act which permitted—

Mr. POAGE. I want to know what that act was. Frankly, I don't know.

Will one of you gentlemen from the Farm Credit Administration tell us what happened?

Mr. BAGWELL. Mr. Maxwell, Director of Land Bank Service, Farm Credit Administration, will answer that.

STATEMENT OF THOMAS A. MAXWELL, JR., DIRECTOR OF LAND BANK SERVICE, FARM CREDIT ADMINISTRATION, WASHINGTON, D. C.

Mr. MAXWELL. Gentlemen, my experience with the system is not so great that I can talk on this with authority, but I will talk as best I can.

The joint stock land banks were organized and made loans from proceeds of their bonds—in addition to those bonds they were privately capitalized. In 1933 the Farm Loan Act provided for the liquidation of the joint stock land banks. And they gradually did wash out, that is right.

Now, as you know, the original Farm Loan Act provided for the capitalization of the land-bank system through Government capital, providing that its capital would be retired with a portion of the capital provided by subscriptions to capital stock by national farm loan associations. And it was gradually retired, and then later on the the land banks got into difficulty, and it was necessary for the Government to subscribe to an additional amount of stock. And that capital has subsequently been retired, that is right.

Now, I don't know whether or not that pursues your question adequately.

Mr. POAGE. I think it does. It seems to me that it is pretty clear that we did not follow, whether we should or should not have, that we did not follow the same policy in the land banks as we are asked to follow in this, but on the contrary, that we followed a policy of completely liquidating the privately owned institutions, completely and totally, which we don't propose to do in this.

Mr. MAXWELL. They have been liquidated before.

STATEMENT OF J. W. SHOTWELL, HOUSTON, TEX.

Mr. SHOTWELL. Mr. Chairman, if I am not butting in, may I answer the question?

I am probably the oldest man here, and I remember those joint stock land banks.

Mr. POAGE. You had one in Houston and one in Dallas.

Mr. SHOTWELL. A very good one in Houston. They liquidated them because they couldn't sell the bonds. There were some big men behind those things in Houston, and it was an unprofitable business. And it was conflicting with the Federal land banks system. And the Federal land bank system, as I said this morning, I think that was the most monumental piece of legislation that has ever been passed by the Congress for the benefit of agriculture. And there wasn't any need for the joint stock land banks in the first place. And they died a natural death, there wasn't any liquidation, they just didn't sell the bonds. The land bank itself had a great deal of difficulty, and as this gentleman says, the Government had to put a little more money in them.

But their idea of financing was sound, and it endured.

Mr. POAGE. Let me ask this question again.

Mr. BAGWELL. Under the present law you cannot organize a joint stock land bank.

Mr. POAGE. All I am saying is that whether we should have done it or should not, it seems to me that we are trying to claim an analogy that does not exist when we try to claim that the situation is comparable to the land bank situation.

Under the land bank situation we have wiped out the possibility of private capital. I am not arguing that that is the right thing, I do not want to wipe out these other financial institutions, but to say that the land bank reorganization treated these borrowers like you want these

other financial institutions treated, it doesn't seem that the facts bear it out.

Mr. SHOTWELL. There is no analogy whatever to a joint stock land bank in the present situation.

Mr. WILSON. It is my understanding that the joint stock land banks took themselves out before the land banks were sold to the users.

Mr. SHOTWELL. Long before?

Mr. WILSON. Quite awhile before. I think you will find the record to be that, although I am not an expert on the land banks. From the records that I have read, and what I have followed through, I have made my statement and if I am wrong in any place, you can fix it up.

Mr. MCINTIRE. One point, Mr. Wilson. I don't want to pick you up, except for the fact that you referred to the sale of land banks to the users. Unless I am very much mistaken in my recollection, it was the original law itself which established the land banks that provided the vehicle by which the users could eventually own the banks.

Mr. WILSON. That is right.

Mr. MCINTIRE. And there never was a time in the land bank system where there was legislation which permitted this thing to happen. It was set up originally to help.

Mr. WILSON. It was planned that way.

Mr. MCINTIRE. And, unfortunately, I think, as these other vehicles were framed legislatively there was not adequate provision made for them to eventually acquire in an orderly basis the ownership of them, and we have been struggling in previous legislation to accomplish what was accomplished in the original legislation establishing the National Farm Loan Association and the land banks system.

Mr. WILSON. My statement could then bar correction to the place that it was not legislation, but it was the original plan that they be sold. I am trying to be brief in this and tie it all together and I have hurried over it.

I would like to point out here that the section in the 1955 bill which provided for the users of the PCC's to purchase was eliminated, and an attempt was given there to give them the opportunity.

In both of these cases—the Federal land banks and the cooperative banks—no change was made in the service nor in the organizations to be served. The law provided for the sale, over a long period of time, of the stock belonging to the Government to the users of each of these banks. I will stand corrected on the land banks. It is a technicality. It was originally planned in the law as you called it to my attention here.

So far as we have been able to determine the users of these banks were treated equally. The users of both the Federal land banks and the cooperative banks had helped to build such reserves and surpluses as were in the two banks and these were permitted to be retained in the banks even though the ownership was being transferred from the Government to the users.

I want to make that point clear that the users had helped to build these reserves and surpluses.

This bill, H. R. 10285, does not follow the pattern set by Congress in handling either the Federal land banks or the cooperative banks. H. R. 10285 provides a plan for merging a bank (Federal Intermediate Credit Bank) with a corporation (Production Credit Corpora-

tion), each of which has a different service to perform and this service is rendered to different types of organizations. In the case of the Production Credit Corporations, their service is limited to the Production Credit Associations while the Federal Intermediate Credit Banks discount paper for the Production Credit Associations and also serve other discounting agencies and banks.

And may I add there that these discount agencies referred to as OFI's or both cooperative, privately owned and corporately owned by other corporations, and the Federal Intermediate Credit Banks serve all of them.

This bill attempts to merge the two into one corporation and at the same time provide for the continuation of a portion of its services to the Production Credit Associations while denying these services to the other financing institutions. This will go further and provides for ways of charging to other financing institutions part of the cost of the services which the consolidated bank will make available only to the Production Credit Associations.

This bill completely ignores the fact that the OFI's, from the period of 1923 to 1933, provided the business needed to start the Federal Intermediate Credit Bank system and that for the period of 1923 to and including the year ending June 30, 1954—and I use that date because I do not have the annual report for the year ending June 30, 1955—the other financing institutions supplied a little more than 20 percent of the total business handled by the combined Federal Intermediate Credit Banks. During this period the OFI's contributed to the building of the reserves and surpluses which are now shown in the financial statements of the FICB's. This bill stipulates a specific program to be followed in the case of liquidation of any merged Federal Intermediate Credit Bank in which the savings and reserves of the FICB which have been accumulated over the period 1923 to and including the date this bill becomes law, shall go to the holders of class A stock (Government) and class B stock (Production Credit Associations). In this the bill discriminates against the OFI's. We strongly urge that fair and equitable treatment demands that this discrimination be eliminated and that the OFI's be credited with their share of reserves and surplus since date of origin in 1923. Otherwise, this bill will give the Production Credit Associations title to equities for which they have neither paid nor helped to create.

Mr. POAGE. May I ask you, does your company borrow any money from insurance companies?

Mr. WILSON. No.

Mr. POAGE. Some of them do, don't they?

Mr. WILSON. Some of our organizations?

Mr. POAGE. Some of the others?

Mr. WILSON. Not that I know of. Occasionally, Mr. Poage—we have got one case in your State right now—we had a loan completed ready to make to discount to the intermediate credit bank, and the intermediate credit bank would have liked to take the loan but because it didn't qualify under the Federal intermediate, after we had it ready to make, didn't qualify out of their requirements—not all of the income was from agriculture, you see—we had to find another home. That is the only loan that we have got discounted with a private loan. But the intermediate wouldn't take it.

Mr. POAGE. I presume that some of them do borrow money from insurance companies?

Mr. WILSON. If you can tell me a good one, we might borrow from——

Mr. POAGE. What I want to ask is this. There are certain large insurance companies in the United States that have mutualized within the last few years.

Mr. WILSON. That is right.

Mr. POAGE. One of them had a great deal of money to loan in my part of the country on real estate during the great depression and I think that contributed somewhat to that mutualization, possibly, I don't know. Anyhow, do you think that people who had borrowed money from the insurance company during the many years that they operated as a stock had a moral claim upon all of the profits of that company when they mutualized?

Mr. WILSON. I do not, and I want to make this very clear. Of these surpluses and reserves existing in the intermediate credit banks—we have done business with them since 1923—we claim no right to them, but this bill proposes to set up the legal procedure in which those reserves and surpluses which today, because of the stock ownership by the Government of the banks belong to the Government, this bill proposes to transfer the use and ownership of that surplus to one set of its users. And I do not believe that the members of this committee would figure that that was fair and equitable treatment in any sense of the word.

Mr. POAGE. Well, I don't hardly think it does just what you suggest, because, as I understand it, it does give to the other financial institutions certain stock when this indebtedness is paid off. In other words, it does give you an opportunity to share in the benefits, if any, of this ownership?

Mr. WILSON. I think I cover that in the rest of my statement.

Mr. POAGE. Let me pursue it a little bit further, if I may.

It seems to me that if I understand it, you agree that the Government is under no obligation to turn these surplus earnings either over to your companies or to the Production Credit Association?

Mr. WILSON. That is exactly right.

Mr. POAGE. But you feel that if they are going to give anything to the Production Credit Association, they should give you—treat you as favorably—isn't that about the size of that?

Mr. WILSON. I think I said it as plain as I could say it. Otherwise, this bill will give the Production Credit Associations title to equities for which they have neither paid nor helped create.

Mr. POAGE. And your objection to it is not giving it to the Production Credit Association, but rather that you say that they are not giving you an equal share?

Mr. WILSON. That is right.

If Congress is going to give it away, we helped create it.

Mr. POAGE. That is, of course, your argument.

I think that this bill does give you and the other financial institutions stock; as I understand it, as quick as this debt is paid off, you are going to share, just as these people are going to share, except you are going to get a special type of stock.

Mr. WILSON. We are talking about two different funds here, Mr. Poage. I am talking about the surplus and reserves which has accumulated in the Federal Intermediate Credit Banks between 1923 and 1933.

You give similar treatment from the date that your bill will become a law, but this other you freeze, to be used in the system up until liquidation, if that ever comes, and in case of liquidation you give to the PCA's, the B stockholders, the proration on the surplus which has been developed over the past.

And the other OFI's built, paid in the fund which accumulated 20 percent of that reserve, that is the point I am making.

Mr. POAGE. What OFI's? I understand there are over a thousand OFI's that have borrowed money from the intermediate credit bank; that is right, isn't it?

Mr. WILSON. All the OFI's, all that have discounted, and the private banks never discounted.

Mr. POAGE. We are right in assuming there have been over a thousand of them, aren't we?

Mr. WILSON. They say 1,200; I don't know.

Mr. POAGE. All right; a thousand or 1,200.

How many are there today doing business?

Mr. WILSON. I don't know. I believe it was brought out here this morning, 94.

Now, when we proceed on that theory, I would like to make it clear here that I am not speaking of what happened to all of them.

But I don't know in a few cases where the OFI's moved in, and became a part of the PCA—in other words, they liquidated and went out, so the PCA could take on in the territory. I think that was more true with the small local OFI's which had served a local area over the past.

Mr. POAGE. Now, who are you going to give that earning to? The present OFI's represent about 8 percent in number, possibly larger than that.

Mr. WILSON. Mr. Poage, I am not here advocating that you give it to anyone. But I am saying, if you are going to give it, if by an act of Congress you are going to distribute or give that to anyone, who has a more favored right for it than the organizations over the period of 1923 to 1933 that paid into the fund that developed it?

Mr. POAGE. I don't know that your organizations have any greater claim than anybody else for what some organizations that existed back in the 1920's and has been out of business for 25 years, for what they put in there, I don't know how you fall heir to it simply because you have a name similar to theirs.

Mr. WILSON. Mr. Poage, we can get over that awfully easy. I don't want to fall heir to it. I am saying that if Congress is going to give it to anyone, to be fair and equitable—and I don't believe you can disagree with it—to be fair and equitable, the organizations that helped build that fund, if you are going to give it to anyone, have as much right to it as anybody.

Mr. POAGE. I am suggesting that there are a bunch of organizations that helped build that fund that are no longer in existence.

Mr. WILSON. Maybe some of their creditors would want it.

Mr. POAGE. I think it amounts to about five-sixths of the organizations you are referring to.

What are you going to do with the reserve that they built? You are laying that in our lap, and we are asking you how to answer it. What do you want us to do with that money that was earned by some OFI that has been out of business for 20 years?

Mr. WILSON. I would leave it in the intermediate credit-bank system.

Mr. POAGE. You would leave it there?

Mr. WILSON. Yes, sir.

Mr. POAGE. That is what we do, isn't it?

Mr. WILSON. In the case of dissolution, we will pass it back, in case you dissolve one of the intermediate credit banks you devise some means of passing it back to the PCA's.

Mr. POAGE. I know we do. How do you want us to divide it?

Mr. WILSON. I don't want to divide it at all. If the bill hadn't been proposed, I wouldn't be talking to you about it.

May I finish the statement, and then get in to that, if you care to, further?

This bill limits the sale of stock and the voting rights to one group of users—namely, the Production Credit Associations. It discriminates against all other users regardless of their past experience with the Federal Intermediate Credit Banks, their financial responsibility, their financial contribution to the building of reserves of the Federal Intermediate Credit Banks or their obligation to farmers and ranchers whom they serve.

We respectfully urge that this committee consider seriously the purpose for which the Congress provided these two separate organizations. The Federal Intermediate Credit Banks were established to provide a discounting service for loan companies and for banks, handling agricultural paper. The Production Credit Corporations were organized for the purpose of organizing, financing and supervising Production Credit Associations. The Federal Intermediate Credit Banks are discount banks which, through sale of debentures to the investing public, can and have obtained large amounts of money to handle the agricultural paper which they discount for users that qualify for their services.

The Production Credit Corporations are not banks in the true sense of the word but are corporations set up to promote, finance and supervise the Production Credit Associations. All of their funds are obtained from the Federal Government and cost of operation has been paid by the Federal Government either directly or indirectly.

If this bill becomes law one group of users of the Federal Intermediate Credit Banks will be permitted to purchase the merged banks after there has been merged or transferred to the banks the responsibility of servicing and supervising the operations of the Production Credit Associations. The result of this merger and sale will be that the Production Credit Associations will own and operate the Federal Intermediate Credit Banks, and the Federal Intermediate Credit Banks will be responsible for servicing and supervising the Production Credit Associations—a rather unsound theory.

There is an added factor that should not be overlooked. This bill, while supposedly intended to take the Government out of the farm-credit business, provides for a revolving fund of some \$160 million. This is to be available at all times to assist in financing either the

Federal Intermediate Credit Banks or the Production Credit Associations.

Stated in another way with a bit more detail, the Government now owns the Federal Intermediate Credit Banks with an investment of some \$60 million. The Government owns the Production Credit Corporations with an investment of some \$31 million—these are approximate figures—or a total investment of around \$91 million in the two systems. Total reserves and surpluses in the two are approximately \$61 million—approximately \$47 million in the Federal Intermediate Credit Banks and \$14 million in the Production Credit Corporations.

To take the Government out of this division of the farm-credit field this bill, if approved, will offer for sale to the Production Credit Associations \$91 million par value of stock at par, the \$61 million surplus and reserves to be retained in the consolidated bank. This bill will also place in the revolving fund an additional \$160 million of Government funds to be used when found needed by the Governor. I want to come back to that a little bit later.

Our association is primarily interested in maintaining a sound credit structure for agriculture. The rates which our farmers and ranchers pay for money is a very definite item in their cost of operation. The ownership of the Federal Intermediate Credit Banks is important only as it may affect the ability of the banks to obtain funds at reasonable rates through the sale of the banks' debentures. These rates are influenced by the public confidence in the banks as well as the ability of the banks to maintain sound policies and sufficient volume for economical operation.

The record since 1923 has been good, especially has this been true since their volume was increased through the organization of the Production Credit Associations in 1933. The \$60 million invested in the 12 Federal Intermediate Credit Banks last year provided a structure through which the investing public made available over \$1 billion for use in agricultural credit through the system. The Federal Intermediate Credit Banks have proven their ability to serve, and the public has accepted this system of agricultural credit by their purchase of debentures.

The National Live Stock Producers Association recommends that the Federal Intermediate Credit Banks be left in their present form until a plan which is sound in theory and fair to all users of the system can be developed.

The National Live Stock Producers Association recommends that legislation concerning the Production Credit Corporations be handled separately, that these corporations not be merged with the Federal Intermediate Credit Banks but that they be continued in their limited field of servicing the Production Credit Associations until such time as the Production Credit Associations reach a point where they no longer require this service.

In summary, the National Live Stock Producers Association opposes this bill on the ground that—

1. It merges two institutions which were developed by the Government to serve two separate and distinct fields of activity;
2. It proposes to place the control and ownership of the discount agency in the hands of one group of users, discriminating against all other users.

And on that point, I want to make it clear that I am not talking only for the OFI's, which are owned by cooperatives or are cooperatives, I think we need to broaden the field of discount agencies to attract more of the volume of production credit than we are at the present time.

I believe my figures are right that about 75 percent of the production credit volume is still in our local or independent banks.

3. It places on the consolidate bank the responsibility of supervising and servicing the Production Credit Associations, which will be the owners of the Bank—a service which we do not think the bank should undertake;

4. The bill provides ways and means of paying the cost of this supervision of the Production Credit Associations out of funds derived from other financing institutions. The OFI's should not be required to pay any part of the cost of a service which is not available to them.

5. In case of dissolution the bill provides for distribution to the Production Credit Associations—the stockholder—of the earnings represented in the present surplus and reserves. This is definite discriminating against the other financing institutions.

Now, Mr. Poage, in addition to this statement, from listening to the testimony that was presented primarily yesterday, and some today, there are some added comments and information I would like to file with you.

It has been brought out a number of times through this consolidation and placing of the cost of supervision over to the merged banks, that there would be material savings. The last year that I have the figures on, the operations of the twelve PCA's, Production Credit Corporations, cost \$1,702,000.

I have seen nothing in the program so far or heard any testimony so far, that leads me to believe that there is any drastic reduction to be made in that cost.

We consolidate—and I can't quote the testimony exactly—but there has been an indication that there won't be too much of a change in personnel until some of the older men who are reaching retirement would be retired.

So we are proceeding, Mr. Poage, on the theory that this \$1,700,000 expended in the year ending June 30, 1954, all of which was paid directly or indirectly by the Government, the losses in the system that year exceeded \$500,000—and while I do not have the figures on last year, I understand the losses exceeded three-quarters of a million dollars.

Now, if we are to believe the testimony and the programs that have been thrown out, we transfer to the consolidated bank this supervisory service. We will not have any mass reduction in the personnel until retirement hits us.

I ask the question and then answer it: Who will pay this cost of our \$1,700,000, which it costs to operate the PCC's in the last year that I have figures on? There is only one answer. It will be paid by the borrowers of the PCA's and the OFI's. It must come from there.

All of your investment in the PCC's at this time is a Government investment. And this bill would shift the cost of supervision now carried on by the PCC's and paid for from Government funds, over to

the Federal intermediate credit banks, or the consolidation. Granted that they do permit the use of the surplus which is now in the PCC fund to be transferred over to, and the income out of that will go first to pay the cost of supervision. Any additional costs will come out of the other revenues of the consolidated bank.

The other revenues, gentlemen, means interest rate, discount rates to credit corporations, and that means interest rates to farmers.

I have had a very, very fine relationship with the Federal Farm Credit Board and the Governor was rash enough yesterday to indicate that I had been before the Board twice. In anything that I say in this meeting, I have nothing but the highest regard for the individuals, I believe they believe they are moving in the right direction. I have appreciated the opportunity to meet with them.

My next comment is with reference to a statement made by someone yesterday to the effect that the Farm Credit Board had a survey made by the Arthur Anderson Co., of 120 South La Salle Street, Chicago, Ill. If my memory serves me right, it was brought out that this survey made by the Arthur Anderson Co. would indicate that substantial savings could be made by consolidation. I do not believe it is enough for the members of this committee, Mr. Poage, to deal with that important item in generalities. And I asked the Governor this morning if he would object if I presented for your record—and I am not going to do it in detail now—for the record, so that the members of this committee can have the benefit of it. This study in which it is proposed that substantial savings will be made through consolidation. I asked to file this in the record. And I particularly call your attention to pages 4 through 7, which deals with discount procedures.

(The study referred to has been filed with the committee.)

Mr. WILSON. And I would like the very close attention of this committee on this point. I am not going to read it to you.

Mr. Anderson and his associates found that their biggest item of savings which would be made through consolidation came in changes in the procedure followed by the banks in handling their discounts. By his own report he indicates that at first they thought these discount banks should be made truly discount banks, and that they should not examine any of the paper which a PCA offered for discount, but that they accepted with the endorsement of the PCA.

Then this report goes on that Mr. Anderson and his experts visited a number of the PCA's in the two bank districts in which they worked. And without quoting him, he indicates that after studying both—studying the PCA setups—they found some that neither from the standpoint of management nor from the standpoint of their financial stability would justify their recommending that all discounts be handled without examination.

So then he moves in the next category to find ways to save money by the consolidation. And he provides—you will find it in this report—since they can't make this universal, they will make the smaller loans and the only thing he uses is \$5,000 in the case of one credit corporation; that all loans under \$5,000, will be accepted without examination by the bank or even checking it; all loans above that figure would have to be examined.

That is moving, Mr. Poage, on the theory that all small loans are good and all big loans are not so good.

This report would indicate that—and I ask that you check it—the biggest single saving they would make, some \$490,000, would come from changing to that system. My advice to this committee and to the Federal Intermediate Credit Banks is that they move very slowly in that direction.

I would like to throw in here, Mr. Poage, if I may, the six companies that I am working with. Never make a bad loan. We just don't make bad loans. But you would be surprised what 3 years of drought and a drop of \$800 in prices will do to some damn good loans. You would also be surprised what a flood will do to some good loans.

I mention that here because the chairman knows a great deal about Texas and we have had our ups and downs down there.

Now, Mr. Chairman, after listening here yesterday, I went to work last night, and worked most of the night. I realize that this committee is strongly urging—at least its chairman is—that this bill be given the right of way and go. I think it will be wrong. But if you are going to do something, I took your bill, 10285, last night and I marked it up and I am not going to read it—and I may not have it marked in all the places that I should—but I proceeded on this theory, if you are going to do this thing, let's do it in a way that will not wreck 498 good PCA's, or most of them good, and the OFI's that are using this bank system. May I make it clear to you, we would fight to the last ditch to keep from injuring the PCA's. We believe we made a broader field of service to farmers, that some duplication is bound to creep in, but we need discounts in large volume if we are going to keep this system going.

So this last one that I am filing with your secretary is a marked copy of 10285 that has been marked to make this change. Instead of merging you liquidate the PCC's. I want you to get this—liquidate them, to transfer the assets of the PCC's to the District Farm Credit Administration, to transfer to the District Farm Credit Administration the responsibility of following through and giving such assistance and help as is needed to keep the PCC's in strong, good position.

We provide for the elimination of capital stock in the Federal Intermediate Credit Bank System in the changes that I have marked here. Eliminate your B stock and eliminate the responsibility of the PCA's buying stock at 15 percent immediately. But we will pay off the Government stock which is in the bank out of earnings as we issue it to the users, both PCA's and OFI's, participating certificates, treating them both alike. For the service of supervising the PCA's, we provide that you use the income from the surplus which you transfer over from the PCC's to the Farm Credit and any additional income needed to pay for that supervision of the PCC's is to be paid out of other resources of the District Farm Credit Administration charged to the agencies receiving the supervision and assistance.

The changes which we have made here—if you have got to have a bill, if you have to got to take the Government out—I think will answer some of the complaints that have been offered today. I do not know the financial position of all the PCA's, but I do know this, Mr. Chairman. With our credit structure where it is now, with our rate of interest pushed from 1½ up now to 3¼, with prices of commodities down, if you called on the OFI's to invest 15 percent in the purchase, it would cramp us.

We eliminate that phase in this bill, as we believe that the PCA's at this time still owing \$2 million of Government money before they get out of debt, would be handicapped if they were called upon to make the investment at this time.

I want to call your attention to the thing that has not been brought out here—let me finish with this bill here first—I have marked this to provide just those things that I am telling you about. It eliminates the merger, it goes to a liquidation—it isn't because we want to liquidate. If the PCA's want the PCC's and are willing to pay for them and are willing to buy them, it is all right with us. If they won't, this bill as I have marked to leave with you will offer a suggestion, and I haven't got all the changes made in there, but I worked on it last night.

There is one additional point I want to make, and then I am closing.

When I passed over this question of the investment of 15 percent, there isn't anybody on the Federal Farm Credit Board, not even including the Governor, but what knows there are some of the PCA's that won't be able to make that investment. Some of them have told me. And we know it. Now, the bill doesn't clearly state it, but it is in there, the provisions made for that in the revolving fund.

Those who cannot afford to, all they need to do, and have the Governor's approval, is to get him to invest more in the stock and use the funds from the sale of that stock to pay off this stock.

Mr. Poage, the door is wide open so that the PCA's could make the 15 percent down payment and not have to take a dollar out of the treasury. It could be made by the revolving fund investing 15 percent more in all of them, and that fund used to pay off the Government on what you are proposing in this bill.

I ask your serious consideration of sticking with this thing until we find a bill that will be fair to the users, all the users, and one which will not offer any chance at this strenuous time of increasing the cost of money to our farmers.

I appreciate this opportunity.

MR. POAGE. Thank you a great deal, Mr. Wilson.

Is there anyone here representing the National Finance Company of Fort Worth, Tex.? They are on the list.

MR. WILSON. I am.

MR. POAGE. And you have already spoken.

MR. WILSON. I mentioned the six there.

MR. POAGE. Mr. Armer is on the list, but since he is not here I assume he doesn't care to appear.

That leaves five individuals who want to testify. And you gentlemen that want to catch a train are in no better shape than the Members of Congress. Unfortunately, there is a great deal more literacy in my district than you would think, and unfortunately, everybody who knows how to write knows how to use the United States mail. We have to spend some time on our correspondence. I don't know how we are going to proceed unless we close this thing now and come back tomorrow morning.

MR. GATHINGS. How long will it take?

MR. POAGE. At least 2 hours. I know the people who want only 10 minutes will take 30, and the people who want 30 minutes will take an hour. I don't mean that critically, but you know what happens, we

have heard very few more than that all day. It will take tomorrow morning.

Does anybody have any better suggestion?

I am going to suggest, then, that the committee recess until tomorrow at 10 o'clock.

(Whereupon, at 4:40 p. m., the committee adjourned, to reconvene at 10 a. m., Saturday, April 21, 1956.)

FARM CREDIT

SATURDAY, APRIL 21, 1956

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE COMMITTEE ON AGRICULTURE,
Washington, D. C.

The subcommittee met at 10 a. m. in room 1310, House Office Building, Hon. W. R. Poage (chairman of the subcommittee) presiding.

Mr. POAGE. We will come to order.

We will this morning attempt to complete the hearing of the witnesses who have been patiently waiting and have not yet had an opportunity to be heard.

I believe Mr. Pete Williams, Clarksdale, Miss., is first.

Mr. Williams.

(No response.)

Mr. POAGE. I understand Mr. Williams had to leave and go home. We are sorry to hear that.

Mr. Lloyd Halvorson?

Mr. HALVORSON. I am economist for the National Grange, with offices here in Washington, D. C., at the National Grange Building.

STATEMENT OF LLOYD C. HALVORSON, REPRESENTING THE NATIONAL GRANGE

Mr. HALVORSON. Mr. Chairman, I am pleased to have this opportunity to present the Grange position to the committee this morning. There seems to be substantial agreement that there is need for a source of credit for farmers over and beyond what is provided by commercial banks and other proprietary lenders.

There is a basic question, however, as to when a new system of credit is set up as to what relationship this new or this farm credit system should have to Government.

I think some of the questions yesterday, or some of the opposition, came from people who still had not been converted to the philosophy that we would like to get the Government out of the business to the fullest extent possible.

It is, however, the philosophy of the Grange and a number of other organizations that to be consistent with our economic philosophy, which has tried to get the Government out to the fullest extent possible, there are also many practical reasons as to why we do not want too close a tie-in with Government.

From our own experiences we have seen some rather wide swings in political sentiment. At one time there was an effort made to convert the Federal land banks into a direct Government lending institution.

That would have been quite easy because of the close relationship that the Federal land banks did have to the Government.

At other times there was a swing in philosophy to get the Government out of business on a first-aid basis, and both of these trends have a great deal of danger to maintenance of a long run help to the farm system of the kind we want.

From the very beginning I think the basic idea has been that in order to set up this very necessary farm credit system the Government had a very important role to play in getting us started on a partnership basis, but as time went on the philosophy was that the Government would gradually recede and the farmers themselves would take over.

We feel that a system which can be owned and controlled by farmers will in the long run be the most satisfactory, will continue with the least amount of interruption or danger of being interrupted, and it will also be able to design a form of credit that best meets the needs of farmers.

The Federal intermediate credit banks have been established over these years on an entirely different basis than the other Farm Credit Unions. It was set up as a Government-owned and controlled source of credit for agriculture. This was even contrary to our general economic philosophy concerning relationship of Government to the banking system.

I believe once we did try to have a Government system of banking, a central bank. Many countries of the world today have a central banking system owned and controlled by the Government. But in spite of our philosophy we did have this government system of Federal banks. The reason we are trying to get away from it today is simply not ideological but also for many practical reasons we have observed. There have been efforts made in the past to determine by political degree, you might say, what volume of loans the Federal banks should be allowed to make.

There have been efforts made to determine that loans could not be made for certain purposes on the theory we should protect certain established areas or we should try to control production through control of credit by Government.

These dangers would not arise if the system were farmer-owned and controlled.

Also we feel there are more dangers of partisan political control in a system that is strictly Government-controlled, especially with regard to personnel.

I remember distinctly some of the experiences Mr. Goss related about the effort to get political forces into the matter of selection of personnel and even in the making of loans.

We feel credit is something which has to stay on a very impartial basis, and the best way to keep it impartial and so a purely commercial basis is to eventually get farmer ownership and control.

The Farm Credit Act of 1953 was a very good act tending to set the basis for eventual farmer ownership and control of the entire Farm Credit system.

The original Production Credit Act was deficient in providing for adequate basis for farmer ownership and control, and so had the bank for cooperatives feature of the Farm Credit Act of 1933.

We have already made these improvements for the Bank Cooperatives. That was done last year. We are now at the point of trying to figure out the best kind of a farmer-owned and controlled production credit system.

The Grange has considered very carefully this proposed Farm Credit Act of 1956. We feel that it is the right method of trying to fulfill the philosophy in the Farm Credit Act of 1953.

At this point I would like to read a little of my testimony.

This hearing on the Farm Credit Act of 1956, is a historic occasion to the Grange. This Act, if made into law, will as I see it, open the last door to the complete fulfillment of the Grange's historical objective of a farmer-owned and controlled farm credit system at all levels.

As we look back we can truly say that the role of Government in helping a cooperative farm credit system get started and doing a good job has been overwhelmingly justified. Since 1916 our agricultural economy has gone through some of the most severe economic shocks of our Nation's history. Yet, today 75.6 percent of our farmers are owners of farms, and only 24.4 percent are classified as tenants. Never before in our recorded history has tenancy been so low and farm ownership by farmers so high. We have a much better rural America, that dollars cannot measure, because farmers were saved from financial ruin in the 1930's by the financial operations of the Farm Credit System. The Farm Credit System played an indispensable role in preserving the financial structure not only of farmers but of the entire economy in the 1930's.

The role of Government in establishing the farm credit system has also been justified by the contribution the farm credit system has made, and is making, in attuning the availability of credit and credit services to the present-day needs of family farms. The technological advance of our family-sized farms would not have been possible without adequate land and production credit, and a credit source which farmers could trust to stay with them in periods of emergency—even if their equity was small. This has been a benefit to the entire Nation.

As we look to the future, we do not feel that the Farm Credit Act of 1956 is intended as a change in the attitude of Government toward the farm credit system. We believe instead that those who have been the fathers of the system can take pride and joy in the fact that the system is now about grown up and has become a stalwart son who can go on his own.

There is one thing we must remember, however, and that is that, should our economy start to gyrate madly, or should our farm depression worsen, then good, sound farmers and good, sound institutions (especially financial) might find themselves on the brink of financial disaster for reasons beyond their own control. It is in the interest of the entire Nation that there is a cooperative farm credit system through which our Government can bolster the entire financial structure of agriculture in periods of emergency on a basis of minimum cost and in an expeditious manner. In other words, the availability of an adequate revolving fund in the cooperative farm credit system is as much to the benefit of a responsible Government as it is to the cooperative farm credit system and farmers. In some ways cooperative farm credit agencies have certain inherent disadvantages, which could make their competitive existence very difficult.

even though their existence is helpful—if not indispensable, at least in periods of recession and depression. Commercial banks have as their major source of loan funds customer deposits on which they pay no interest, and on which they are in fact prohibited by law from paying interest. However, at times the cost of handling customer deposits may be as high as the interest rate on debentures, but it should be noted that the interest rate on money can go far above the cost of handling customer deposits. The upper limits on interest rates are not nearly so much determined by the cost of banking as by the policies of the Federal Reserve System on rediscount rates and open market operations. This means that high interest rates could give commercial banks an appreciable advantage over the Production Credit System in the cost of obtaining loan funds.

I thought some of the remarks made yesterday were very much to the point. I agree 100 percent with the points you were making, and that is that the commercial banks in a sense create deposits which they use to make loans. In other words, this big expansion has taken place in our money supply since before the war and it has been an expansion that the commercial banks made possible in our Nation. That is not bad.

Of course, they have a cost of maintaining the deposits, but as I point out in my testimony here, there is no necessary relationship between the cost of handling customer deposits and the interest rates determined by the Federal Reserve Board, so there might in that sense be a windfall, you might say, to commercial banks in this system of banking we have in this country.

You also pointed out, I think, that the Federal Government maintains deposits of around \$4½ billion in the commercial banks of the Nation, even though the real deposit accounts of the United States Government are in the Federal Reserve Banks where they keep another \$500 million of deposits.

It is true, of course, the Federal Government pays a lot of people all over the country, and some have said that is the reason the Government needs to maintain deposits in these other commercial banks where its own checks are not written on. But, at the same time, I want to point out that while the Grange has a deposit of its own in one bank, it is not expected to maintain a deposit in the same bank where I deposit my checks and do my banking. I feel you made a very good point and I want to stress it.

This benefit that the bankers and others seem to think are undue preference to farmers and their credit institutions is not such a great preference when you compare it to the advantages which they themselves have.

You could even go back to the 1930's. The Government did not maintain anywhere near the \$4½ billion of deposits which they maintain now.

You were also right that the Federal Reserve notes now outstanding amounts to about \$25 billion. But I want to say all the demand deposits which the commercial banks have been allowed to create under our banking system fall in about the same category as the Federal Reserve notes as far as the privilege of commercial banking in this country is concerned.

This brings me to the matter of the treatment of the surplus in the Production Credit Corporations and the Federal Intermediate Credit

Banks. This surplus has arisen largely from efficient operation and a decision not to currently pass on to farmers, in the form of lower interest rates, all of the aid to agriculture that was possible from the Government capital which was put into the system.

There is some difference of opinion between the Bureau of the Budget and the Federal Farm Credit Board in how the PCC and FICB's surplus should be handled. It should be noted, however, that Mr. Hughes of the Bureau of the Budget has, in effect, said, "We have no objection to donating the present surplus and reserves of the Production Credit Corporations and the Federal Intermediate Credit Banks to the merged institutions as a permanent Federal subsidy." We believe this statement indicates an appreciation on the part of the Administration for the justification of not requiring repayment of the surplus and also the recognition of the public interest in the establishment of a strong farmer-owned and controlled farm credit system.

The National Grange would not want to see the present surplus of the PCA's and the FICB's distributed as dividends or as dissolution spoils to the stockholders. We believe that the possibility of this happening is very remote if not precluded. If the merged institution should go bankrupt, there would be no surplus and in any case the dissolving of the system would require an Act of Congress. Even dividends are prohibited if the present surplus is reduced.

The Grange will be on record at this time for the future that we would not want ever to see the present surplus distributed as dissolution spoils.

Mr. POAGE. In other words, you are opposed to the Bureau of the Budget position?

Mr. HALVORSON. Yes.

We believe that the objections to section 206 (c) are, in effect, academic, but to put in the law that the surplus belongs to the Government would create the danger of undue Government interference in a credit system that we hope to make farmer-owned and controlled. This would defeat our entire purpose, and the salutary effects which we expect to flow from the Farm Credit Act of 1956 would be lost.

The Administration would like to get Government out of business to the fullest extent possible, but still the recommendation in effect would put the Government perpetually into business to some extent through this system. It would never become a situation where the farmers would feel they have an organization free from the Government if we follow the Bureau of the Budget.

We are also opposed to having the Government Corporation Control Act apply to the Federal Intermediate Credit Banks. The subjecting of the budget and the lending authorization of a commercial lending institution to review by an appropriation committee is hardly necessary and has some dangers.

At all times we should remember that the Farm Credit Administration agencies will be subject to the supervision of the Federal Farm Credit Board, an agency responsible to the President.

In regard to making the cost of supervision a part of the FICB interest rate, we believe that, as time goes on, the cost of supervision can be greatly reduced, and that the cost of supervision for a PCA need not be much more than the cost of reviewing the financial statements and operations of other FICB borrowers. It should also be

mentioned that PCA's are directly and indirectly providing more capital for the merged FICB than other borrowers.

It was necessary to give the PCA a great deal of supervision in the past. But a farmer-owned institution can run on its own as well as the commercial local bank and it would not need a great deal more supervision eventually. Perhaps that is just my opinion but I would like to leave it for what it is worth.

We feel that the Farm Credit Act of 1956 provides adequate assurances that other financial institutions will have a continuing opportunity to obtain loan funds from the FICB'S on equitable terms.

In regard to making other cooperative financial institutions stockholders of the proposed Federal Intermediate Credit Banks, we have no position. We do feel, however, that this is a separate question with many ramifications. First of all, they are State-chartered and State-supervised institutions. Secondly, their membership would probably require changes in the farm credit districts with many complications. At least some of the other cooperative farm credit institutions probably are less dependent upon the FICB's for loan funds than the PCA's.

In conclusion, we urge favorable action on H. R. 10285 and identical bills.

Mr. POAGE. We are very much obliged to you, Mr. Halvorson.

Questions?

(No response.)

Mr. POAGE. Thank you very much, Mr. Halvorson. We appreciate your coming.

I believe we have Mr. Riggle here this morning, who has been waiting 2 or 3 days to be heard.

STATEMENT OF JOHN RIGGLE, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. RIGGLE. Mr. Chairman, my name is John Riggle, secretary, National Council of Farmers Cooperatives.

We appreciate the opportunity to appear before you on this bill, Mr. Chairman.

Since 1934, the National Council of Farmer Cooperatives has had a policy favoring the progressive increase in the cooperative nature of the farm credit administration agencies engaged in financing the sound credit needs of agriculture, with the systematic retirement of Government capital, and an increase in the participation of farmers in the capitalization, operation and management of the system, subject to the necessary Government supervision.

During World War II, activities under this policy were necessarily suspended, but beginning in 1946, the Council, together with other farm groups and credit agency members, became active again in analyzing and promoting measures to facilitate the cooperative credit program. Their efforts were favorably considered by the Congress and as a result the Farm Credit Acts of 1953 and 1955 were placed on the statute books in partial fulfillment of the intent of Congress and the farm groups in the original establishment of the affected farm credit agencies.

Under these acts the overall farm credit administration structure and the cooperative bank structure were oriented toward greater farmer ownership and participation in management; and the operating features of the land banks, farm loan associations and production credit associations were revised to make their operations more responsive to the credit needs of farmers, and to give farmers more representation in the organization. There remain unfinished among other items, consideration of the organization, use, and disposition of the production credit corporations and the Federal intermediate credit banks.

Short term farm credit is agriculture's most vulnerable point in the whole rural credit structure. Approximately 75 percent of short term farm loans are held by commercial banks, who because of prior obligations to depositors, are not in a position to carry their loans during a prolonged period of recession when deposits decline and repayments slow up. Failure of any substantial number of farmer borrowers to pay interest on short term loans or to secure extension of loans when due, can precipitate a cumulative liquidation of farm enterprises at forced sale prices, especially when commodity prices are declining. A resulting decline in general business conditions and bank deposits in rural areas will still further restrict the local banks' ability to carry farm loans.

Recently the rediscount rates on commercial loans in the several Federal Reserve districts have been raised. This includes agricultural paper which is handled as commercial loans under Federal Reserve operations. Actually most of this paper consists of credit covering commodities and given by handlers in the channels of trade, secured by warehouse receipts for nonperishable or processed farm products, and by farm equipment and supplies. Generally it is 6 to 9 months paper. Little of it is paper given by farmers directly to commercial banks to purchase livestock, equipment, feed or supplies. Country banks are full of farmers' paper which the Federal Reserve banks do not customarily rediscount.

Important as handlers' and processors' credit is to the orderly marketing of farm products and the supplying of farmers through the channels of trade, it still leaves a vacuum in discount operations for short term paper of farmer origin held by the country banks. Hence, farm production paper is most vulnerable to the credit restrictions which follow when rediscount rates of central banks are raised, as they have been recently. In the early twenties and again in the early thirties, the credit restrictions in those periods forced the wholesale liquidation of agriculture and the country banks generally were taken over by the government in the early thirties and many were liquidated because of the slowness of farm paper.

The worst thing which could happen to the American economy would be precipitate or even allow the liquidation of farm values such as occurred then. Forty percent of the Nation's work force is employed to provide services and supplies for farm production and the farm home; and to produce, handle, process, transport and distribute farm foodstuffs, feedstuffs and fiber on the way to the consumer. When the farmer is forced out of the market for production and consumer goods, he pulls these supported industries down with him, first in rural business areas and then in urban industry, greater in proportion than

his use of their services and products. Witness the recent heavy worker layoffs in the farm equipment industry, due to farmers dropping out of the farm equipment market because of reduced income.

Present farm inventory values have not been tested by forced liquidation, because so far cash and credit resources of farmers have not been wholly exhausted, except in the case of young farmers, including veterans, who have financed farming enterprises during the postwar period of high farm capital and operating costs. Many of these are reported to be selling off their farm setups and many other farmers are seeking employment in urban areas to augment declining income.

Farmers of this country have operated in a period of high fixed costs and declining farm income since 1951. The ratio of prices received to prices paid declined from 100 in 1951 to 80 in December 1955. In 1929 before the economic debacle the ratio was 92.

Production expenses in 1954 were 3 times what they were in 1929 while net income was 2 times the 1929 level. Farm mortgage debt has increased 60 percent over the 1946 level, much of it recently to refinance production credit.

The point is that short-term credit is the most vulnerable part of the farm credit structure and hence the Achilles heel of farm economy in time of stress; principally because farmer paper, held 75 percent by country banks, is the first to feel the pressure of credit restrictions imposed by the across-the-board policies of the Federal reserve and commercial banking systems.

The most vital service the Federal farm credit system can provide for agriculture is to set up adequate facilities for the rediscounting and carrying of the farmer paper of which country lending institutions including production credit associations, country banks and other financing institutions are full; and to provide incentives so that those facilities are used by country banks and other financing agencies to carry agriculture over thin periods in the rural economy until farm values recover, as they always have done in due course; rather than to accept by default the situation under which the forced liquidation of farm production paper may proceed as it did in the disastrous 1930's. Such a discount facility would have to provide incentive for active participation by all lenders on short-term farm paper, both in its services and in the distributing of earned margins when and if available above operating expenses and retains necessary for capital formation.

We believe legislation should meet this problem head-on by providing facilities for broad discount services and incentives for its use by short-term farm lending institutions. Cooperative short-term farm credit agencies should have voting membership for election of production credit representatives on the district board and nonmember participants, such as commercial banks and other noncooperative financing agencies, should participate in patronage refunds contributed to capital which are to be revolved out after the Government capital has been retired out of earnings. Likewise there should be, on liquidation or dissolution no discrimination between members and nonmembers in the distribution of surplus and other assets accumulated out of the patronage of different financing institutions, if this is to be a bona fide cooperative credit institution following established mutual principles.

Technically we have no position in the merger of the production credit corporation with the intermediate credit banks.

We are far more concerned that, through proper incentives and non-discriminatory policies, there may be provided for farmers through various intermediate channels a source of production capital of such availability and strength as not to require emergency measures to meet recurring farm credit crises. Any proposed legislation should, we believe, be measured against such a standard, as well as that of cooperative ownership and control.

Since the income of intermediate credit banks for many years has been 90 to 94 percent from interest paid by borrowers, and the cost of necessary government administration and supervision by the Farm Credit Administration has exceeded the income from investments in Government bonds, we see no validity in the premise that the Government has any interest in the surplus and reserves after the Government capital is retired. A franchise tax has been paid on the use of Government capital, and until the unlikely event of dissolution, except by act of Congress, the surplus and reserves should remain in the system without any continuing Government claim.

Likewise until the future of the agricultural economy is more stable, we believe the retention of the revolving funds of the production credit corporations and Federal intermediate credit banks on a reallocated basis is important in any legislation at this time.

While we are not authorized to endorse any bill before the committee as indicated above, we favor legislation to provide for completing the mutualization of the farm credit system and orderly retirement of Government capital in the short-term credit system on a broad enough structure and authority to serve agriculture across the board and fill the vacuum in our present short-term credit discount facilities.

Mr. POAGE. Thank you very much.

Mr. McINTIRE. I was interested in what I thought was the train of thought throughout your testimony—the fact that commercial banks find it most difficult at times to handle this short-term farm paper.

In the last 2 or 3 years, 2 or 3 banks in my area have established agricultural credit corporations through which they are handling practically all of their short-term lending to farmers.

Why hasn't that been done more in the past by the banks? These two banks I mentioned are very frank to admit that they could not have handled for the past 2 years the volume of agricultural paper they did handle except through the medium of these agricultural credit corporations. Why haven't they used that before?

Mr. RIGGLE. You mean used this corporation?

Mr. McINTIRE. Yes, the discount privilege.

Mr. RIGGLE. Perhaps they have not had the same incentives to use it as the other credit institutions which more or less by law and by regulation have been required to use it.

The national banks and state banks being under supervision of other agencies and examined and counseled by those agencies have tended to keep them more or less within the channels of operation which those agencies have allied to it.

Mr. McINTIRE. These banks to which I refer, one is a national bank, and the largest one in my home county. The other one is a trust company. Both of them are now finding that they can service agri-

cultural paper far more constructively through this vehicle of an agricultural credit corporation.

Mr. RIGGLE. It is like many other things, perhaps. It has to be promoted. Services have to be promoted as being available.

I think things change rather slowly in the banking business, perhaps too slowly.

There has been some feeling throughout the banking system that this was a kind of outside organization, perhaps. They didn't know whether they wanted to get mixed up in it.

Mr. MCINTIRE. Some of their traditions and feelings have outweighed their obligation of service.

Mr. RIGGLE. Perhaps a feeling of competition has been more dominant than the feeling of service to the farmers. Let me put it that way.

Mr. POAGE. Anything further?

(No response.)

Mr. POAGE. If not we are very much obliged to you, Mr. Riggle.

Are there any other opponents of the bill?

(No response.)

Mr. POAGE. Mr. Christopher, a Member of Congress from Missouri, is opposed to the bill and would like to be heard.

STATEMENT OF HON. GEORGE H. CHRISTOPHER, MEMBER OF CONGRESS FROM MISSOURI

Mr. CHRISTOPHER. I am George H. Christopher from the Fourth District of Missouri, and I am in opposition to this legislation.

Mr. POAGE. We will be glad to hear you.

Mr. CHRISTOPHER. I thank the chairman very much for allowing me to sit in at these hearings and to hear the testimony.

I have been with Production Credit as a participant, a borrower and a worker, for and with them ever since the very beginning of Production Credit.

I remember very distinctly trying to farm and borrow money at a time when such a thing as Production Credit had not been thought of, when there was no such thing as N. F. L. A.'s.

I remember borrowing \$1,000 on good real estate security when I paid 7 percent interest and a 5 percent commission to the loan company to secure the loan which was due in 5 years.

At the end of 5 years I was unable to repay the money. The loan company told me for another 2½ percent commission they would seek to get the mortgage renewed, so when I had had that \$1,000 10 years I had paid \$775 in interest and commissions, still owed the \$1,000, and the loan company held out 12 percent of the proceeds of the loan when I made it, 7 percent interest per year and 5 percent commission, so I got only \$880 to begin with.

Of course, that wasn't really lending money. That was legalized highway robbery, and perhaps if it had not been for N. F. L. A. and Production Credit Associations the same thing would be operating today.

The Governor of the Farm Credit Board I believe testified here that he considered Production Credit had done a good job for some 20-odd years. I had forgotten to say at the beginning that I have always been

a farmer and still am a farmer. We had no National Farm Loan Board until 1953. I don't know how bad we farmers needed a Federal Farm Loan Board, but if we needed one we never realized it. We seemed to get along very well.

Figures given me by the Governor indicate that farmers believe in their production credit setup to the point that they have purchased something like \$64 million worth of stock on which they are not realizing either interest or dividends. We were told that that stock was bought in order to retire Federal capital.

We were told when we bought the stock that it would draw no interest and earn no dividends until some indeterminate time in the future.

We bought it with that understanding and we bought it because we knew that we had stood in great need of the kind of farm credit that the Production Credit Associations give us, and we sacrificed the return on that money in order to retire that Government capital.

Now when we have about 80 percent of the job done in our associations, we are asked to buy the intermediate credit banks.

If conditions were as they were 4 or 5 years ago, perhaps that wouldn't be so hard to do, but this comes at a time when there is a terrible disparity between the income of nonfarm people and the income of farm people.

In 1952 the net income per capita of nonfarm people was \$1,836. By 1955 it had risen to \$1,919, or up \$83 per capita among the nonfarm population of the United States.

During that same period net income from farming had sunk from \$675 to \$551, or it was down \$124 per capita, while the nonfarm net income was up \$83 per capita.

Net income lost by farmers for 1953, 1954, and 1955 was \$12 billion.

The source of this income is on table 666, page 43, Agricultural Income Statistics.

During that same time, from 1952 to 1955, industrial stock prices rose 62 percent. Corporate profits after taxes rose 32 percent. Stockholders' dividends rose 19 percent, net nonfarm income rose 14 percent, and net farm income fell 23 percent.

You might ask me "Why be a farmer?" If you don't just love to live out there, there is no valid reason for being a farmer.

I don't have recent figures, but I know they go on in the same trend.

During the 2 years of 1953 and 1954, farmers went to the loan companies for \$1,100 million more money. They went to their bankers for another billion dollars in bank loans at a time when their inventory on their real estate went down \$4½ billion and the inventory on their livestock went down \$7½ billion.

There is a great hue and cry raised about the interest on the Government money which was put into the farm credit setup, but you know the Congressional Record, dated January 12, 1956, page 403, on that page a very noted Congressman said that—

Government losses to manufacturers in subsidies of one kind and another between 1933 and 1955 was \$40.8 billion. Government subsidies to shipping over the same period of time was \$5 billion. Government losses in supporting farm prices between 1933 and 1955 was \$1.2 billion.

When the total of all subsidies to all groups are considered over the past 50 years, the farmer has received \$5 out of each \$1,000 which has been paid by this Federal Government in subsidies in one way or another.

And yet you would think to read the press, watching your television, and listening to your radio, that farm people were the only segment of our population that were ever subsidized.

What is happening in the United States? Between 1953 and 1955, the last year inclusive, 600,000 farmers have gone off the farms in the United States for one cause or another.

My State of Missouri lost 28,431.

My home county of Bates lost 278. Barton County lost 243. Cash County lost 188. Henry County lost 340. Jackson County lost 616. Johnson County lost 241. Lafayette County lost 106, and Vernon County lost 224.

Authority for that statement is the 1954 Census of Agriculture from the Bureau of the Census.

Out in Missouri in 1952, hogs sold for 100 percent of parity. In December of 1955 they were selling for 50 percent of parity.

In 1951 grade A milk brought \$6 a hundred in Kansas City and sold at retail for 20 cents a quart.

In 1955 it sold for \$4 in Kansas City and the people who drink it paid 21 cents a quart.

Farm products are now selling in many cases at bankrupt prices, but the cost of living is six-tenths of 1 percent under the alltime high.

What is the meaning of all this? It means that this is a poor time to ask the farmers of the United States to start buying the Intermediate Credit Banks.

It has been developed here at this hearing that it will probably take them anywhere from 40 to 50 years to get their job done. We have already invested, as I said, \$64 million in trying to get our production credit associations farmer owned. Why should we be asked to do this now at a time when they are the least able to do it?

This legislation is written, I am sure, pursuant to so-called Hoover reports, and the name Hoover does, and always has, brought to my mind 3-cent hogs and 12-cent corn and 40-cent wheat, and 9,000 bank failures in 12 years, and I am more than suspicious of anything that is remotely related to the name.

The Eighty-third Congress passed in 1953 the Farm Credit Act. I am even suspicious of that. In my opinion it is designed to return the America farmer eventually to the same status that he occupied all through the 1920's.

NFLA and the Production Credit Associations have been of inestimable value not only to the borrowers from those institutions, but to the tens of thousands of other borrowers who never borrowed a dollar from either of those institutions.

I know it was predicted that NFLA would break all our life insurance companies, bankrupt every loan company in the land. It didn't do it. It forced the private loan companies, much against their will, to lend money at reasonable interest rates on long-term loans.

Almost any loan company now will make good farm real estate loans at 5 percent, no inspection fee, no commission, 20 to 32 years' time. They didn't do that because they wanted to do it. They did it because they had to meet the competition of the Federal Land Banks.

Private loan agencies don't like production credit associations, and never have.

Our interest rates, or rediscount rates are up a little over 300 percent in the last 2 years.

I don't know why, but it always has been my observation that when we get a Republican administration in control of the Federal Government we get five things:

Lower prices for the food and stuffs produced by the American farmer, higher interest rates, tighter credit, the stock market bursting right out through the ceiling, and a tax cut, the lion's share of which goes to our super rich and our giant corporations.

I am an old man. I have watched the political situation and the financial situation in this country all my life, and those things are always happening.

I don't like this legislation. I am opposed to it. I hope the committee doesn't report it out, and if it does I hope it is defeated on the floor of the House.

Thank you.

Mr. POAGE. Questions?

Mr. McINTIRE. I have no questions.

Mr. POAGE. We are very much obliged to you, Mr. Christopher.

Are there any other witnesses who want to be heard in opposition to this?

(No response.)

Mr. POAGE. I want everyone opposed to this bill to have a full opportunity to say so, and all those in favor of the bill to have full opportunity to say why.

If there are no further statements to be made I will ask unanimous consent to insert certain communications which I received overnight in the record.

(The statements referred to above are as follows:)

WACO PRODUCTION CREDIT ASSOCIATION,
Waco, Tex., April 19, 1956.

Re H. R. 10285, H. R. 10286, and H. R. 10315.

Hon. W. R. POAGE,

Congressman, 11th Texas District,

Washington, D. C.

DEAR MR. POAGE: Thanks very much for notifying us, through Mrs. Downey, of the hearing on the Farm Credit Act of 1956 being held today and tomorrow. I have just returned from a 4-day absence and found Mrs. Downey's letter, with a copy of H. R. 10285, on my desk. Since neither Mr. Walker nor I can get away just now for the hearings, and since we are certain that you are just as interested as we in getting the right kind of bill passed, we shall rely upon you to see that our views have due consideration in the House Committee on Agriculture.

As you will see in the attached statement of views of our board of directors, we have found a "joker" in the bill. I think I can assure you that none of the PCA's of Texas would want to invest a dollar in the Federal Intermediate Credit Bank or any other institution unless they felt certain of obtaining control of the institution eventually when they have paid for it. But the Governor of the Farm Credit Administration talked them into supporting the bill as it is, without any provision for increasing our control as we increase our ownership, and to postpone the question of controls for later legislation; his contention being that to inject the question into the bill would delay or impede its passage in the present session of Congress. But, frankly, I believe the Governor is strongly opposed to giving control to the users of the credit banks, and I base my opinion on remarks he made to a mutual friend in Houston when he was there. So it looks as if the rest of the PCA's in Texas have been hoodwinked into going along with the Federal Farm Credit Board's bill, although it does not give us what we want. The joker is, of course, the new declaration of policy, which restates the policy of the Congress in such a way as to make it appear that Congress has changed its mind about doing what the Farm Credit Act of 1953 says, and no longer is interested in giving the purchasing associations "increased participation in management and control." If this declaration of policy is enacted, it will prove

a big stumbling block to any move to get increased controls established through later legislation.

We would much prefer to have this bill spell out just how we are to obtain "increased control" over the merged banks as we progressively acquire ownership. However, if it is not practicable to do this now, we could go along with leaving this question to be worked out later, if we could feel reasonably certain that it would be done later. But this new declaration of policy, if enacted, would certainly impair our chances, and our directors feel that it would play directly into the hands of those persons who think the people at the grassroots should not control their institutions but should be directed by those higher up. We feel strongly that this bill better be held up or defeated unless the declaration of policy is revised to reaffirm in all its particulars the policy set forth in the Farm Credit Act of 1953.

I trust you will make our views on this matter as plain and as strong as you can to the committee. If we can get provision for controls written into this bill, we want it done. If it is impracticable to get it into this bill, then we certainly want the way left open to have it done in later legislation. We shall greatly appreciate your assistance in this matter.

Sincerely yours,

CARLOS VAL. SMITH, *Secretary-Treasurer.*

STATEMENT OF VIEWS OF THE WACO PRODUCTION CREDIT ASSOCIATION OF WACO, TEX.,
CONCERNING THE PROPOSED FARM CREDIT BILL OF 1956

We shall discuss here S. 3564, introduced by Senator Holland, of Florida; H. R. 10285 introduced by Representative Cooley; H. R. 10286 introduced by Representative Hope of Kansas; and H. R. 10315 introduced by Representative Poage of Texas. These four bills are identical in text. Hence we shall refer to them in the singular.

We have agreed with the majority of the Production Credit associations of our District that this bill, as far as it goes, is a good bill. We have no disposition to delay or impede its passage, if it is what the production credit associations of the entire system want and if the objections which we shall raise herein are met.

Our association however, is one of those who feel that some important things have been left out of the bill. The objections which we shall raise have been called to the attention of the Federal Farm Credit Board heretofore, with recommendations for their remedy, but without result. Therefore, we shall present our objections and recommendations to the Congress, hoping they may be received with more consideration.

Objection No. 1: no provision for "increased control"

This legislation, like the "Farm Credit Act of 1955," is designed to comply with the statement of policy contained in the Farm Credit Act of 1953 (Public Law 202), which says:

"It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this Act shall be construed in keeping with this policy."

It has been, and is, our belief that "control should go with ownership." It was to be expected that the Federal Farm Credit Board, in preparing this bill, would have had due regard to the statement of policy of the Congress quoted above, which specifies "management, control and ultimate ownership" as its goals, not simply ownership. Yet this bill fails to make any provision for the purchasing associations to acquire increased control of the merged Federal Intermediate Credit Bank as they acquire ownership.

Our association, in common with many others feels that the present arrangement, under which the PCA's of a district have 2 elected directors on a district board of 7 men, does not constitute control. This arrangement is fairly satisfactory so long as we do not own the Credit Bank, but when we have invested our money and have retired the Government capital from the merged Bank and own it, we cannot agree that 2/7 representation on the board of directors will give us effective control. The proposed Act does not provide for voluntary participation in the purchase of stock in the Bank, but makes it compulsory for the PCA's to invest their capital. This is doubtless necessary to the success of the plan for retirement of the Government capital, but it would seem that simple justice would

dictate that the same Act should provide the means for giving the purchasing associations "increased control" along with their progressive assumption of ownership. And, we repeat, this clearly is the intent of the Congress as quoted above from the Act of 1953.

If it be thought that the omission of provision for controls from this bill is an oversight, let us look at the "Declaration of Policy" (Sec. 2.), which reads as follows:

"It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy."

This declaration appears to have been very carefully written, and it makes it appear that the Congress has backed away from the policy contained in the Farm Credit Act of 1953, previously quoted. Notice that it omits any reference to "management and control" and bears down on "farmer ownership" only. Without attempting to impugn motives, we are nevertheless faced with these questions:

Why did the Federal Farm Credit Board feel it necessary to restate the policy of the Congress?

Why did it not simply let the original (1953) Declaration of Policy stand and re-affirm it?

Does this indicate that the Farm Credit Administration now looks askance at "borrower participation in management and control" and would limit borrower participation to ownership only?

We can only raise these questions not answer them. But we can state positively that the production credit associations of the Nation have not changed their views and they are expecting the policy adopted in 1953 to be carried out. We do not believe that the Congress has changed its policy, and we submit that the proposed Declaration of Policy does not properly represent nor express the policy of the Congress.

If this be considered an unimportant matter, let it be remembered that several attempts have been made in the past, by persons and interests opposed to the principle of farmer-borrower control of our system, to reverse our plan and to gather up the controls in Washington. Although these attempts were thwarted, we are not at all certain that further attempts will not be made. We hope there are no longer any persons in the Farm Credit Administration who disapprove of the principle of borrower management and control of our agricultural credit system, but if there are, the proposed restatement of congressional policy in the aforementioned Declaration of Policy, if enacted, would be a useful tool for their purposes.

Recommendation.—We recommend:

(1) That the Declaration of Policy in Section 2 be rewritten or amended so as to re-affirm in all particulars the Policy contained in the "Farm Credit Act of 1953."

(2) That the bill be amended to provide that the purchasing associations shall obtain control of the merged Federal intermediate credit banks progressively as they acquire ownership. (Our association favors the plan of separate, but interlocking boards of directors for the three units of the Farm Credit System in each district.)

Objection No. 2: No provision for hardship cases

The attention of the Federal Farm Credit Board was called to the absence from this bill of any provision for allowing an extension of time for the initial investment of association capital in the merged Bank where it would cause an association hardship. In our district, several associations have been and are experiencing a prolonged drouth. In others, there are associations that, due to limited capital and small income, may find it hard to meet the scheduled payments on time. Our association, being a more or less average PCA, would have

to take about \$26,766 out of our present working capital, in 3 installments over a period of 2 years. This is equivalent to 90 percent of our total profits for the past 5 years, and is equal to 6.7 percent of our present capital and surplus. We doubt if we can take this amount out of our working capital without some impairment of our operation. We feel certain that a comparable withdrawal from the capital of those associations that are undergoing more difficult conditions would cause even more embarrassment to them.

We think that the bill should make provision for some flexibility in requiring the investment of association funds in the merged banks. If this is not done, and an association found itself unable to meet an installment, its only recourse would be to request the Governor of the FCA to invest some Government capital out of the revolving fund to take up the slack. It would be hard to imagine a more absurd situation than that of an association being obliged to get capital from the Government with which to retire Government capital from the bank.

Recommendation.—That the bill be amended to permit the Federal intermediate credit bank of a district to grant an extension of time for the initial 15 percent investment, or any installment thereof, to an association that would be unable to make such investment without serious hardship.

We respectfully submit these recommendations to the consideration of all Members of the Senate and the House of Representatives, and particularly to the members of the Committees on Agriculture of the two Houses.

RICHMOND PRODUCTION CREDIT ASSOCIATION,
Houston, Tex., April 17, 1956.

Re H. R. 10315, Farm Credit Legislation.

Hon. W. R. (BOB) POAGE,
*Committee on Agriculture,
House of Representatives, Washington, D. C.*

DEAR SIR: We wish to thank you for sponsoring the above house resolution in which proposals are made to retire the Government capital and merge the Production Credit Corporations in the Federal Intermediate Credit Banks.

We would like to point out two proposals made in Senate bill 3550 in which we do object to:

1. Where the Government would have a continuing interest in the surpluses and reserves of the merged institutions after all Government capital has been retired from them.

2. That the new institution will be forced to continue to operate under the provision of the Government Corporation Control Act until all Government capital has been retired.

We are of the opinion that the surpluses and reserves rightfully belong to the farmers and ranchers of the country who have made them largely possible, and that our district farm credit boards are capable along with the executive officers of the banks to control such matters as budgets, etc., without Governmental interference.

Thanking you very much for your help and consideration on the legislation, I am

Yours very truly,

C. A. DANKLEFS,
President.

CANADIAN VALLEY PRODUCTION CREDIT ASSOCIATION,
Canadian, Tex., April 19, 1956.

Hon. W. R. POAGE,
*Member of Congress, House Office Building,
Washington, D. C.*

DEAR SIR: We have discussed H. R. 10285, which provides for the merging of the Production Credit Corporations and the Federal Intermediate Credit Banks and the purchase of the merged banks by the production credit associations, with many of our stockholders and have received favorable replies.

We favor passage of this bill as written. We do not favor S. 3550 which has been presented in the Senate, because it does not follow precedent in these matters and would keep the newly formed institution under budget provision of the Government Corporations Control Act.

Very truly yours,

ERBIN L. CROWELL,
Secretary-Treasurer.

FRESNO-MADERA PRODUCTION CREDIT ASSOCIATION,
FRESNO, CALIF., April 16, 1956.

HON. W. R. POAGE,
Member, House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN: Legislation affecting farm credit will be presented to the House of Representatives in the near future.

The board of directors of this association are unanimous in urging you to support bill H. R. 10285. This bill will give the Production Credit Associations an opportunity to eventually own the Federal Intermediate Credit Bank by the systematic retirement of all Government capital. This bill also provides that the surplus accumulated from the earnings of both the Federal Intermediate Credit Banks and the Production Credit Corporations will be transferred to the credit banks in connection with the merger of both organizations. This is in keeping with the intent of Congress when they originally set up the farm credit system whereby the original capital was provided by the Government, most of which has been retired, giving the cooperatives the privilege of becoming wholly member-owned.

Our group definitely opposes bill, S. 3550, which, in our opinion, is contrary to the intent of the original writers of the farm credit legislation, and would place the new organization under the Government Corporations' Control Act and deprive said new organization of the surplus and reserves now accumulated in the old organizations.

We urge you to give this request your utmost consideration, as the outcome of the legislation will have tremendous effect upon our 1,400 members in particular and agriculture as a whole, as with the cost of money increasing and the returns to the farmer diminishing any unfavorable action would be very detrimental.

Respectfully yours,

ROY SCHNAUER, *President.*

STATEMENT OF JAMES E. WELLS, JR., EXECUTIVE VICE PRESIDENT, FARMERS UNION
LIVESTOCK ASSOCIATION, SOUTH ST. PAUL, MINN., FOR NATIONAL FARMERS UNION

Mr. Chairman and gentlemen of the committee, the National Farmers Union recommends that H. R. 10285 be approved without amendments by your committee, and it is recommended that the Congress pass H. R. 10285 when approved by your committee.

As executive vice president of a farmers' cooperative, I have a double interest in this legislation, both in its effect on cooperative banks and on individual farmer loans. I have been closely associated with credit problems for a long time. For many years I was Deputy Governor of the Farm Credit Administration and Commissioner of the Banks for Cooperatives.

Especial consideration was given to the fact that by the merger of the Production Credit Corporations in Federal Intermediate Credit Banks duplications in the review of rediscountable paper and other functions will be eliminated and costs reduced. Some have thought that there should be a separate corporation for supervision and a separate corporation for rediscounting. Such an arrangement would continue the inefficiencies that now exist; the bill provides for adequate departmentalization for the administration of these two functions; these functions would be cared for under the merged banks in a manner similar to that followed by the Federal Reserve System and the Federal land banks.

Questions have been raised as to whether other financial institutions, other than the Production Credit Associations, that are authorized to borrow and rediscount with the merged Federal Intermediate Credit Banks would receive credit under the merged banks as adequate as the credit which they have received during the past. It is believed that better credit service will be received by the other financial institutions under the merger plan. The authority and the directive to do so are clearly written into the bill; Farm Credit Administration officials have informed us that every effort will be made to make these functions operate effectively.

In regard to the borrowings by the Bank for Cooperatives, it is believed that their credit needs will be provided for better under the merged Federal Intermediate Banks. The credit needs of the Banks for Cooperatives may be met at the Farm Credit District level rather than at the Washington level with less lost motion and with increased efficiency.

If any amendment were to be offered, consideration might be given to permitting intermediate credit up to 10 years instead of the 7 years provided in the bill; however, it seems desirable first to obtain experience in the selling of debentures of the Federal Intermediate Credit Banks under the 7-year term.

The retention of the name, Federal Intermediate Credit Banks, the capital structure left with the banks after the merger, and the revolving fund provided for additional capital requirements appear ample for the continuous sale of debentures of the system to the investing public; these provisions seem adequate for any foreseeable future contingencies.

All in all, the passage of the bill will provide improvements in the efficiency of operations, a possible reduction in costs of operations, a centering of responsibility in the rediscounting of paper, and a capital base so that adequate lending funds may be made available through the sale of debentures.

RIVER FALLS PRODUCTION CREDIT ASSOCIATION,
River Falls, Wis., May 8, 1956.

Hon. LESTER JOHNSON,
Congressman, Washington, D. C.

DEAR SIR: Thank you for your letter of April 21, 1956, in regard to I. R. 10285. This bill has our endorsement as being the best adapted to the proposed merger of the Federal Intermediate Credit Bank and the Production Credit Corporation. There are some comments I would like to make:

1. Since the associations will be assuming ownership of the Federal Intermediate Credit Bank, the name should be changed to the Production Credit Bank eventually, if not now. The word "Federal" implies Government ownership.

2. I do not believe that it was originally intended back in 1923 that the users would own the Federal Intermediate Credit Bank. That angle came in with the 1953 legislation. To me it is fundamentally wrong for three reasons: First, the Production Credit Associations are asked to capitalize and provide available credit to other financing institutions or others who are competitors operating in the same territories as the PCA's. These are nonmember organizations operated for profit while the PCA's are cooperative and operated for service to its members—quite divergent in purpose. Second, since the intermediate credit banks provide credit to lenders other than PCA's, it serves the public interest. It has at times been proposed that the Government capital of the Federal intermediate credit banks be retired through earnings and then administered as an institution of public trust which, in my opinion, would be more appropriate; and third, it would seem that the expense of the central office of the Farm Credit Administration at Washington, D. C., should be paid by the Government. I believe the expense of the office of the comptroller, supervising national banks, is paid by the Government.

3. It has been suggested, and I concur, that following line 11, page 8 of I. R. 10285, the following sentence be inserted: "In no case shall all of the class B stock owned by an association, or all of the participation certificates owned by another lending agency, be retired without consent of said association and/or lending agency" or words to that effect. This would have the effect of preventing the Federal Intermediate Credit Bank from retiring all of the stock in an association and liquidating it. It has already been brought out in the hearings and, no doubt, will be corrected, but I believe it is quite important.

4. Another danger, and it is purely administrative, is that with the consolidation, too many of the officers of both units could be retained at the same salary—thus defeating a substantial part of possible savings.

5. A secretary-treasurer (manager) should not serve on the district board of directors. The owners of the system—the farmer members—should have that privilege and responsibility exclusively. I understand that this was read out of the act in 1955 but it was again proposed in 1956 that NFLA secretaries be so permitted.

6. The Production Credit Associations are the only segment of the Farm Credit system which are subject to Federal and State income taxes, as well as all other taxes levied against corporations. In 1954 we paid \$6,874.78 Federal and \$800.52 State tax. In 1955 \$4,380.69 Federal and \$781.77 State tax. This is an added expense for the farmer in the continuing cost-price squeeze. Under the circumstances, it is not apparent why the PCA's should have to pay these taxes.

While the following points are taken care of by H. R. 10285, it is important that no amendments or changes be made.

1. That the surplus be left in the system (two precedents for that have been set in the case of the Federal land banks and the bank for cooperatives) and that there be no continuing interest by the Government in the surplus of the intermediate credit banks in the event of liquidation as proposed in S. 3550.

2. The revolving fund should be maintained at \$100 million as a protection in case of national emergency, rather than \$70 million as proposed in S. 3550.

3. The intermediate credit banks should be removed from the budget provisions of the Government Corporation Control Act.

Since I am interested in the bill, I will appreciate having a copy of the text of the hearings if it is possible and when available.

While, as I indicated at the outset, this bill comes as close to meeting the needs as one can get, nevertheless it cannot help but add to the total cost of operating credit used by the farmer. This is true not only on the money borrowed through Farm Credit, but other lenders as well since they somewhat follow the pattern set by PCA's.

Undoubtedly you made similar requests from the other PCA secretaries in your district and I hope they avail themselves of the opportunity to present their opinions and viewpoints. I, for one, appreciate your sincere desire to serve agriculture and that you are willing to listen to the little fellow out on the firing line.

Very truly yours,

L. M. JOHNSON,
Secretary-Treasurer.

MR. MCINTIRE. Mr. Chairman, yesterday I put into the record a telegram which I had received from the Central Jersey Farmers Co-operative Credit Association of Heightstown, N. J. I think I inadvertently put that into the record in the portion of the record which perhaps contains the opposition to this bill, and this telegram places this association in favor of the bill.

MR. POAGE. If there are no further witnesses and no further insertions to be made in the record at this time this will close the general hearing on the bill.

The committee will meet Tuesday morning at 10 o'clock to consider the further drafting of the bill.

We will meet Tuesday morning in Room 1308.
(Hearing adjourned at 11:10 a. m.)

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FARM CREDIT ACT OF 1956

HEARINGS
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON
AGRICULTURE AND FORESTRY
UNITED STATES SENATE
EIGHTY-FOURTH CONGRESS
SECOND SESSION
ON

S. 3549, S. 3550, and S. 3564

BILLS TO MERGE PRODUCTION CREDIT CORPORATIONS IN
FEDERAL INTERMEDIATE CREDIT BANKS; TO PROVIDE
FOR RETIREMENT OF GOVERNMENT CAPITAL IN FEDERAL
INTERMEDIATE CREDIT BANKS; TO PROVIDE FOR SUPER-
VISION OF PRODUCTION CREDIT ASSOCIATIONS; AND FOR
OTHER PURPOSES

APRIL 23 AND 24, 1956

Printed for the use of the Committee on Agriculture and Forestry



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FARM CREDIT ACT OF 1956

MONDAY, APRIL 23, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
RURAL ELECTRIFICATION OF THE COMMITTEE ON
AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to call, at 10:10 a. m., in room 324, Senate Office Building, Senator Spessard L. Holland presiding. Present: Senators Holland (presiding), Scott, Mundt, and Schoepel.

Senator HOLLAND. The subcommittee will please come to order.

This is a hearing called on three Senate bills, S. 3549, S. 3550, and S. 3564 which cover the same subject matter.

The chairman of the Senate Committee on Agriculture and Forestry, Mr. Ellender, introduced by request the first two bills, 3549 and 3550.

S. 3564 was introduced by me and I understand from the officials of the Farm Credit Administration that some changes are embraced in that bill which do not occur in either of the two bills introduced by Senator Ellender.

Therefore, I am going to have a copy of S. 3564 placed in the record at this time, with the understanding that all measures are before the committee and if there be any substantial question that arises from the changes in wording, they may be considered by the subcommittee.

S. 3564 will be included in the record at this point.

(S. 3564 is as follows:)

[S. 3564, 84th Cong., 2d sess.]

A BILL To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956."

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loans policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount

with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

“CAPITAL STOCK

“SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

“(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of

such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) ANNUAL APPLICATION.—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: First, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

"(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a)

of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor,' is authorized and directed to organize and charter 12 banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank".

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "Provided, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provision of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation," wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock."

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section

201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

Senator HOLLAND. Also I ask to have copied in the record a communication dated March 16, signed by R. B. Tootell, Governor of the Farm Credit Administration, and addressed to the President of the Senate, which transmitted the proposed legislation and stated the request of the Farm Credit Administration for its consideration and enactment. Attached to Mr. Tootell's letter is a communication from the Bureau of the Budget on this same subject dated March 14, 1956, directed to Mr. Tootell, and signed by Rowland Hughes, Director, with two pages of suggested technical modifications.

(The documents above referred to are as follows:)

FARM CREDIT ADMINISTRATION,
Washington, D. C., March 16, 1956.

The honorable the PRESIDENT OF THE SENATE,
United States Senate.

DEAR MR. PRESIDENT: There are transmitted herewith, for the consideration of the Congress, alternate drafts of a proposed bill entitled "A bill to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes." One draft has been cleared by the Bureau of the Budget as being in accord with the program of the President and is designated "Federal Farm Credit Board draft amended as required by the Bureau of the Budget." The other draft, designated "Draft recommended by the Federal Farm Credit Board," differs in three important respects from the draft cleared by the Bureau of the Budget. These differences will be discussed in the latter part of this letter. For the reasons stated in the enclosed copy of the letter from the Director, the Bureau of the Budget has agreed that a draft of the bill recommended by the Federal Farm Credit Board may also be submitted for the consideration of the Congress.

I. BACKGROUND OF PROPOSED LEGISLATION

Section 2 of the Farm Credit Act of 1953 provides as follows:

"It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this Act shall be construed in keeping with this policy. The Federal Farm Credit Board hereinafter provided for shall within one year after appointment make recommendations to the Congress of means, supplemental to those provided by this Act, of carrying into effect such declared policy, including, but not limited to, means of increasing borrower participation in ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, production corporations, Central Bank for Cooperatives, and regional banks for cooperatives may be retired."

Accordingly, on December 8, 1954, the Federal Farm Credit Board submitted its recommendations for legislation in a special report to the Congress (S. Doc. 7, 84th Cong., 1st sess.). For reasons stated in that report, the Board made no recommendation for the retirement of the Government capital in the Federal intermediate credit banks. Instead, it recommended that the Congress delay consideration of such legislation until the Board had made a further study of the problem.

A draft bill incorporating most of the recommendations contained in the special report of December 8, 1954, was submitted to the Congress in February 1955 and was introduced in the House as H. R. 5168 and in the Senate as S. 1286. Before enacting H. R. 5168, which became the Farm Credit Act of 1955 upon approval by the President on August 11, 1955 (Public Law 347, 84th Cong.), the Congress deleted from the bill provisions which would have required the retirement of the Government capital in the production credit corporations and the gradual assumption by the production credit associations of the cost of their supervision. The reports of the House Committee on Agriculture and the Senate Committee on Agriculture and Forestry on H. R. 5168 (H. Rept. 863 and S. Rept. 1201, 84th Cong.) stated that it was the understanding of the committees that the Farm Credit Administration would give further study to the short-term credit institutions and make new recommendations by the time the Congress convenes in January 1956.

The Farm Credit Administration has made an extensive study of how best to retire the Government capital in the Federal intermediate credit banks and the production credit corporations and at the same time protect the interests of the production credit associations and other users of the credit banks. As a part of this study, meetings were held throughout the country with directors and officers of production credit associations and representatives of other financing institutions dealing with the banks. The recommendations resulting from that study are incorporated in the enclosed draft of the bill designated "Draft recommended by the Federal Farm Credit Board." As heretofore stated, this draft has been amended to conform to the requirements of the Bureau of the Budget as set forth in the enclosed copy of the letter from the Director of the Bureau. The draft approved by the Bureau of the Budget will be discussed first.

II. BACKGROUND OF INSTITUTIONS AFFECTED

Before going into the details of the bill, a brief review of the Farm Credit institutions affected by it should be helpful. These institutions consist of a Federal intermediate credit bank and a production credit corporation in each of the 12 Farm Credit districts and the 498 production credit associations which make short- and intermediate-term loans to farmers and ranchers.

Federal intermediate credit banks

The Federal intermediate credit banks were established in 1923 with an initial authorized capital of \$5 million for each bank subscribed by the United States. Additional capital for the credit banks was provided by an act of Congress approved January 31, 1934 (48 Stat. 348). That act made available to the Farm Credit Administration a revolving fund of \$40 million and authorized the Governor, with the approval of the Secretary of the Treasury, to subscribe for and to pay in such additional capital and paid-in surplus as he deemed necessary to enable the credit banks to meet the needs of eligible borrowers. As of December 31, 1955, the Government's capital investment in the banks was \$62.4 million, consisting of the original \$60 million of capital stock and \$2.4

million of paid-in surplus, leaving \$37.6 million in the revolving fund available for further investment in the banks.

The credit banks were established to provide agriculture with a permanent, stable, and dependable source of short- and intermediate-term agricultural credit. They serve as banks of discount and not as direct lending banks. They were authorized initially to discount agricultural paper for a number of different kinds of private lending agencies and later were also authorized to discount such paper for the production credit associations organized under the Farm Credit Act of 1933. Thus the banks make no loans direct to farmers and ranchers but instead finance the production credit associations and the OFI's which make such direct loans. In addition, the banks are authorized to make loans to and discount paper for the banks for cooperatives and to make certain types of direct loans to farmers' cooperative associations.

As a result of the growth and development of the production credit system supervised by the Farm Credit Administration, the major part of the credit business of the banks is now done with the production credit associations. During the fiscal year 1955 about 88 percent of the banks average daily balances of loans and discounts was accounted for by the production credit associations. In the fiscal year 1954 this percentage was 87. Among the districts this percentage ranged in the fiscal year 1955 from 66 to 96 percent.

Most of the OFI's doing business with the credit banks are State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

The credit banks finance their lending operations primarily through the issuance and sale to the investing public of consolidated collateral trust debentures and by direct borrowings from commercial banks. The United States assumes no liability for the debentures or other obligations of the credit banks.

Production credit corporations

The production credit corporations organized under the Farm Credit Act of 1933 are, like the Federal intermediate credit banks, wholly owned Government corporations. A revolving fund of \$120 million was used to capitalize these corporations. As of December 31, 1955, the amount of stock of the corporations held by the United States amounted to \$31,350,000 and the earned surplus and reserves of the corporations amounted to approximately \$13,500,000. There remains in the revolving fund \$58,650,000 for possible future subscriptions to stock of the corporations, \$30 million having been returned in 1949 from the revolving fund to the general fund of the Treasury.

The production credit corporations provide services to and supervise the production credit associations. They prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations supplement the capital of production credit associations when necessary and appropriate. They also see that the associations return the corporation-owned capital as rapidly as conditions will permit. The corporations prescribe or approve interest rates charged by the associations. They approve the compensation of association personnel and generally guide the associations in the conduct of their business.

Production credit associations

The production credit associations are federally chartered corporations which make short- and intermediate-term loans to farmers and ranchers within designated areas. Like the production credit corporations, the associations were organized under the Farm Credit Act of 1933. Each production credit association has two classes of stock—class A (not voting) which may be issued to a production credit corporation or to farmer members and other investors, and class B (voting) stock which may be issued only to member borrowers. The associations are also authorized under conditions stated in the Farm Credit Act of 1953 to issue class C stock but so far none has been issued.

The production credit corporations furnished almost all of the initial capital of the production credit associations through the purchase of class A stock. Over the years, farmers have purchased substantial amounts of class A stock in their associations. Through purchases of stock and the building up of reserves and earned surplus, the associations have been able to retire most of the \$90 million of capital stock once held by the production credit corporations. As of December 31, 1955, less than \$2.2 million of the capital stock of the associations was owned

by the production credit corporations and 436 of the 498 associations were entirely member owned.

III. PROVISIONS OF BILL

Both drafts of the bill provide, in major outline, for the merger of the production credit corporation in the Federal intermediate credit bank of each district and the transfer of all assets of the corporation to the credit bank; for service to and supervision of the production credit associations of each district by the credit bank of the district; and for the retirement of the Government capital in the credit banks gradually over a period of years, partly from stock investments in the banks by the production credit associations and partly from net earnings of the banks. Section 2 of the bill also contains an important declaration of policy with respect to the relationship between the credit banks and the production credit associations and other financing institutions (hereinafter called OFI's) making loans to farmers and ranchers.

Draft approved by Bureau of Budget

Section 101 of the bill provides for the merger of the production credit corporation in the Federal intermediate credit bank of each district and the transfer of all assets of the corporation to the bank, except stock held by the corporation in the production credit associations which would be transferred to the Governor of the Farm Credit Administration. This section provides also for the transfer of most of the supervisory and servicing functions of the production credit corporation to the credit bank of the district and directs the Farm Credit Administration to require such organization and assignment of functions in the bank as will assure the kind of supervision and assistance necessary to effectuate the declared policy of the act with respect to the production credit associations. In addition, section 101 would terminate the employment of the officers and employees of the banks and corporations on the effective date of the act and direct the board of directors of the bank, not later than 60 days prior to such effective date, to take all necessary action to reemploy as of the effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to conduct the bank's business. The purpose of this provision is to give the board of directors of the bank a free hand, subject to the approval of the Farm Credit Administration, to select qualified personnel for operation of the banks under the new plan, except that the board would be required to select the officers and employees from the old officers and employees of the two institutions to the extent that they are qualified and needed.

Section 102 of the bill provides for the reorganization of the capital structure of the credit banks. Each bank would be authorized to issue class A and class B stock. Class A stock would have a par value of \$100 per share and would be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock in the banks now held by the Secretary of the Treasury would be transferred to the Governor and, after such reallocations as he determined to be necessary to meet the present and prospective needs of the respective banks, the Governor would then exchange such stock of each bank for an equal par amount of new class A stock. Stock of each production credit corporation held by the Governor, except an amount equal to its investment in production credit associations, would be exchanged for an equal par amount of the new class A stock of the bank in which the corporation is merged. No dividends would be paid on class A stock and it would be retired at par. Each bank would be required to retire a specified minimum amount of class A stock each year in which its net worth amounted to more than one-sixth of its peak outstanding debentures and other such obligations. The minimum amount of class A stock to be retired in any such year would be the total amount of class B stock and participation certificates issued for that year. When the net worth of a bank amounts to less than one-sixth of its peak outstanding debentures and other such obligations, the amount of class A stock to be retired would be determined by the bank, subject to the approval of the Farm Credit Administration.

Class B stock would have a par value of \$5 per share and would be issued only to the production credit associations. Class B stock would be acquired in two ways; first, by an initial subscription by each association and, second, through distribution of earnings on a patronage basis in class B stock. Each production credit association would be required to make an initial subscription to class B stock of the bank equal to slightly more than 2 percent of the average amount of

its loan and discount indebtedness to the bank during the immediately preceding 5 years. This would mean an initial subscription to class B stock by all production credit associations equal to 15 percent of the total amount of class A stock of all 12 banks. The purchase price of the stock would be paid over a period of 2 years following the effective date of the act. Dividends of not to exceed 5 percent in any year could be paid on class B stock and on participation certificates after all class A stock had been retired. After all class A stock is retired, class B stock and participation certificates could be retired at par or face amount in accordance with the cooperative principle of retiring first the oldest outstanding stock and certificates.

Section 102 of the bill also provides that the bank shall have a first lien on all stock in the bank owned by the production credit associations and on all participation certificates owned by the OFI's as additional collateral for any indebtedness of the holders to the bank. The bank would be prohibited from making a loan on the security of its own stock or participation certificates.

Section 103 of the bill provides a new method for the application of earnings of the bank. After restoration of any impairments in capital stock, participation certificates and the surplus account, and after providing for reserves, franchise taxes, and dividends, if any, on class B stock and participation certificates, net earnings each year would be distributed on a patronage basis in class B stock to production credit associations and in participation certificates to OFI's. After all class A stock is retired, patronage refunds could be paid in cash or in class B stock and participation certificates at the discretion of the bank. The recipients of class B stock and participation certificates issued during any year in which the bank has class A stock outstanding would not be subject to Federal income taxes on such stock and certificates. Section 103 would also require each bank, on the effective date of the act, to establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. This surplus could not be distributed as patronage refunds, but would constitute a part of the permanent capital structure of the bank. In the event of liquidation or dissolution of any bank, after payment of all liabilities, class A stock would first be retired at par and then class B stock and participation certificates would be retired at par or face amount, as the case may be. Any remaining portion of the surplus established on the effective date of the act would then be paid into the Treasury as miscellaneous receipts, and any residual assets of the bank would be distributed to the holders of class B stock and participation certificates pro rata.

Section 104 of the bill would amend existing law in several important respects. Subsection (b) would permit the banks to make direct loans to OFI's on the security of collateral approved by the Governor. The banks may now make loans on such a basis to the production credit associations and this would place the OFI's on a parity with the associations. This subsection would also repeal the authority of the banks to make direct loans to farmers' cooperative associations, except to enable such associations to make loans to farmers and ranchers for agricultural purposes. The purpose of this change is to eliminate duplication of lending functions of the credit banks and the banks for cooperatives. Subsection (c) of section 104 would permit the banks to make loans, advances, and discounts with maturities up to 7 years instead of 3 years as at present. Subsection (d) would repeal the provision of law which relates the discount and interest rate of each bank to the interest rate borne by the last preceding issue of debentures. The banks would be authorized to determine discount and interest rates, subject to the approval of the Farm Credit Administration, except that the same rates must apply to both the production credit associations and the OFI's. Subsection (e) would repeal the provision under which the banks are prohibited (without the approval of the Farm Credit Administration) from discounting notes and other obligations upon which the original borrower has been charged a rate of interest exceeding by more than $1\frac{1}{2}$ percent the discount rate of the bank. This provision has become obsolete.

Section 105 of the bill contains amendments to the Farm Credit Act of 1933 which, for the most part, would be necessary by reason of the merger of the production credit corporations in the credit banks. It should be noted, however, that subsection (d) changes the revolving funds now available for stock investments in the production credit corporations and the credit banks. The revolving fund to be made available for the purchase by the Governor of stock in the production credit associations (heretofore purchased by the production credit corporations) would be reduced from the statutory figure of \$120 million (actually only \$90 million is now in such fund) to \$60 million, and the revolving fund

available for subscriptions to the capital stock of the credit banks would be increased from \$40 million to \$70 million.

The remaining sections of the bill contain mostly minor technical amendments made necessary by the elimination of the production credit corporations.

Draft recommended by Federal Board

The enclosed draft of the bill recommended by the Federal Farm Credit Board differs from the draft approved by the Bureau of the Budget as being in accord with the program of the President in the following respects:

1. *Disposition of existing surplus and reserves upon liquidation (sec. 103 of the bill).*—The draft approved by the Bureau of the Budget provides that upon liquidation of any Federal intermediate credit bank, after payment of all liabilities and retirement of all stock and participation certificates at par (or face amount), any remaining portion of the surplus and reserves of the bank existing on the effective date of the legislation shall be paid into the Treasury as miscellaneous receipts. The draft recommended by the Federal Farm Credit Board provides that any remaining portion of such surplus and reserves shall be paid to the holders of class A (Government) and class B (production credit association) stock of the bank pro rata.

2. *Continuation of budget controls after merger (sec. 201 of the bill).*—Under the draft approved by the Bureau of the Budget, the Federal intermediate credit banks would continue, after merger, to be subject to the budget provisions of the Government Corporation Control Act so long as they have class A (Government) stock outstanding. Under the draft approved by the Federal Farm Credit Board, the Government Corporation Control Act would be amended to remove the Federal intermediate credit banks from the budget provisions of that act but leave them subject to audit by the General Accounting Office so long as there is Government capital in them.

3. *Revolving fund for investment in class A (Government) stock of the Federal intermediate credit banks (sec. 105 of the bill).*—The draft approved by the Bureau of the Budget would increase from \$40 million to \$70 million the revolving fund out of which the Governor of the Farm Credit Administration is authorized, with the approval of the Secretary of the Treasury, to purchase capital stock of the Federal intermediate credit banks. The draft recommended by the Federal Farm Credit Board would increase this revolving fund to \$100 million.

Early consideration of this proposed legislation is recommended.

The Bureau of the Budget advises that the following modifications would be required to bring the Federal Board's proposal into accord with the program of the President:

1. Upon liquidation of any Federal intermediate credit bank, after payment of all liabilities and retirement of all stock and participation certificates at par (or face amount), any remaining portion of the surplus and reserves of the bank existing on the effective date of the legislation should be paid into the Treasury as miscellaneous receipts.

2. The Federal intermediate credit banks should continue, after merger, to be subject to the budget provisions of the Government Corporation Control Act so long as they have class A (Government) stock outstanding.

3. The revolving fund out of which the Governor of the Farm Credit Administration would be authorized to purchase capital stock of the Federal intermediate credit banks should be limited to \$70 million.

A copy of the letter of the Bureau of the Budget, dated March 14, 1956, setting forth these requirements is enclosed, together with a copy of the bill amended in accordance with such requirements.

Very truly yours,

R. B. TOOTELL, Governor.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 14, 1956.

Hon. ROBERT B. TOOTELL,
Governor, Farm Credit Administration,
Washington, D. C.

MY DEAR MR. TOOTELL: This will acknowledge Mr. Esgate's letter of December 15, 1955, transmitting copies of a proposed draft bill which you desire to present to the Congress entitled "To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in

Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes."

The proposed legislation is a step in the direction of fulfilling the President's recommendation in the agricultural message of January 9, 1956, that the production credit corporations and the Federal intermediate credit banks be merged. The draft bill, however, is not in its present form entirely in accord with the program of the President in that it does not fully protect the Government's financial interest in the merged institutions or provide for effective budgetary control during the transition to private ownership. Until the banks have been converted into wholly privately owned and privately financed institutions the Government will have a substantial stake in their operations. Under the provisions of the bill the Government initially will increase its capital investment in the banks from \$60 million to approximately \$82 million. The money received for retirement of the Government's stock is to be paid into a revolving fund which shall remain available for repurchase of stock by the Government.

The needed substantive modifications are stated below. In addition, a number of suggested technical modifications are set forth in an enclosure to this letter.

1. Section 206 (c) of the bill provides that in the case of liquidation or dissolution of any Federal intermediate credit bank, any surplus shall be paid to stockholders on a pro rata basis. While we have no objection to donating the present surplus, and reserves of the production credit corporations and the Federal intermediate credit banks to the merged institutions as a permanent Federal subsidy, there would be no justification for distributing this surplus to private stockholders upon liquidation. When a bank is dissolved and the surplus ceases to be required for the purpose for which it was intended, it should be returned to the Treasury, as is now provided by law in the case of the Federal intermediate credit banks.

2. The Federal intermediate credit banks should continue, after the merger, to be subject to the budget provisions of the Government Corporation Control Act until such time as the production credit associations shall retire all of the Government-owned stock in these banks. So long as the Government has a direct investment in the banks and assumes a large contingent liability in connection with their operations, it is essential that the banks' financial plans be subject to annual review by the President and the Congress.

3. The aggregate amount of the two revolving funds for the capitalization of the Federal intermediate credit banks and the production credit associations should be held at the present level of \$130 million. An increase in this amount does not appear to be warranted by the estimated future capital requirements of the banks and the production credit associations. There would be no objection, however, to reallocating the amounts in the two funds and providing for an increase in the fund to capitalize the Federal intermediate credit banks, if accompanied by a corresponding decrease in the production credit fund.

If amended as stated above, there would be no objection to the submission of the draft bill to the Congress and its enactment would be in accord with the program of the President.

You have indicated that referral of the recommended amendments to the Farm Credit Board, which has apparently made certain commitments in developing the present draft and holds strong views with respect to its provisions, would result in considerable delay which might preclude consideration of the bill during the present session of the Congress. Under the circumstances, and in view of your strong representations that the Congress is urgently requesting submission of this legislative proposal, we would agree to your forwarding a copy of the bill proposed by the Board, together with an appropriately amended bill, to the Congress. Your letter of transmittal should set forth the modifications which would be required to bring the Board's proposal into accord with the program of the President.

It is requested that a copy of this letter accompany submission of the draft bill to the Congress.

Sincerely yours,

ROWLAND HUGHES, *Director*.

SUGGESTED TECHNICAL MODIFICATIONS

1. The Treasury Department made the following suggestions:

(1) "If the production credit corporations are dissolved, there would be no need for the amendment to section 2 of the Farm Credit Act contained in section 105 of the bill which would increase from \$40 to \$100 million the amount

of the revolving fund available for the purchase of stock in the intermediate credit banks. In any event, it would not appear necessary to restore the availability for future stock subscriptions of the \$40 million that has been returned to the Treasury from the revolving fund for the purchase of stock in the production credit associations."

(2) "It is a misnomer to refer to the payment to the Government that would be provided by the amendment to section 206 of the Federal Farm Loan Act contained in section 103 of the bill as 'a franchise tax' since the payment would bear no relationship to taxes imposed by the Internal Revenue Code. As an alternative, the payment could be referred to as a dividend payment."

(3) "Section 206 (b) of the Federal Farm Loan Act as it would be amended by section 103 of the bill would exempt from Federal income tax patronage refunds by intermediate credit banks while the Government holds stock in the banks. The proposed exemption would be in conflict with the administration's general recommendations on the tax treatment of patronage dividends and the Department recommends its deletion."

2. The following paragraph is from the comments of the Comptroller General of the United States:

"Section 105 of the proposed bill provides for the retention of a revolving fund of \$60 million from which the Governor may purchase stock of production credit associations, and for another \$100 million which may be used by the Governor for subscriptions to the capital stock of the Federal intermediate credit banks. Because some of the production credit associations will be partially financed from the revolving fund while at the same time owning stock of the banks, the Government would in such cases be placed in the position of lending to such associations the funds used to retire its own stock. Further, because the proposed bill (sections 104 and 105) would authorize loans between the Federal intermediate credit banks, the banks for cooperatives, and the now privately owned Federal land banks, the funds of Federal intermediate credit banks and the banks for cooperatives, including their revolving funds, could in effect be placed at the disposal of the privately owned Federal land banks."

3. The Board of Governors of the Federal Reserve System made the following comments on section 201 (c) of the proposed bill:

"That section would exempt debentures issued by the banks for cooperatives from the limitations and restrictions prescribed by section 5136 of the Revised Statutes with respect to the powers of national banks and member State banks to invest, underwrite, and deal in securities. The banking problem involved in this proposal is not momentous, and the Board is sympathetic toward the desire of the Farm Credit Administration to enable the banks for cooperatives to finance their operations as economically as possible. Nevertheless, from the bank supervisory viewpoint there is no sufficient justification, in the opinion of Board, for conferring exempt status on such debentures; nor does that status appear to be necessary in order to enable the banks for cooperatives to distribute their debentures successfully. For these reasons, the Board would not favor the grant of exemption embodied in section 201 (c) of the draft bill."

"It has been suggested that exemption is appropriate in this case because similar debentures issued by the Federal intermediate credit banks are exempt from the provisions of section 5136. Assuming that the two classes of debentures are comparable, the Board would be inclined to feel that exempt status is inappropriate with respect to both, especially since the draft bill is designed to effectuate further the objective of the Farm Credit Act of 1953 of making the ownership and direction of the intermediate credit banks increasingly non-governmental."

4. The draft bill would have the Governor of the Farm Credit Administration hold stock in the production credit associations in behalf of the United States Government. This could be construed as converting such production credit associations into mixed ownership corporations, which clearly is not intended.

Senator HOLLAND. There are several communications which will probably be placed in the record later, but since the persons sending them may appear later and probably other communications will also be received, I will wait until the end of the hearing and insert all needed communications at that time.

I call as the first witness Mr. Marvin J. Briggs, Chairman of the Federal Farm Credit Board.

STATEMENT OF MARVIN J. BRIGGS, CHAIRMAN, FEDERAL FARM CREDIT BOARD, INDIANAPOLIS, IND.

Mr. BRIGGS. Mr. Chairman and gentlemen of the committee, my name is Marvin J. Briggs from Indianapolis, Ind., Chairman of the Federal Farm Credit Board.

Before I proceed may I introduce 2 or 3 other members of the Board who are present: Mr. Matthews from Texas, who is Vice Chairman of the Board; Mr. Edwards from Florida; Mr. Anderson from West Virginia.

These are 3 of the other 12 members associated with me on the Board.

Senator HOLLAND. Are we to assume that their opinion on this pending matter is the same as yours?

Mr. BRIGGS. Yes, sir.

I think, Mr. Chairman, I can save time by reading this. It will be very brief.

It is a pleasure to appear before this committee and discuss the activities of the Federal Farm Credit Board in connection with the development of S. 3564, a bill which would merge the production credit corporations in the Federal intermediate credit banks and provide the legislative means for farmer ownership of these banks.

S. 3564 is the same as S. 3549 with minor perfecting amendments, while S. 3550 contains important changes requested by the Bureau of the Budget. All farm-credit institutions supervised by the Farm Credit Administration, other than these corporations and credit banks, are now either wholly farmer-owned or else existing law provides a program to accomplish that objective. I shall not attempt to explain the provisions of the bill itself. This will be done by Governor Tootell, who will testify later.

My testimony will be limited to a discussion of the events which led to the development of the legislative recommendations contained in the bill.

The Federal Farm Credit Board was established pursuant to the Farm Credit Act of 1953. The Board was given specific statutory responsibility for recommending legislation to the Congress which would carry out the declared policy of that act with respect to the management, control, and ownership of the Federal farm credit system.

Section 2 of that act reads as follows:

It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this act shall be construed in keeping with this policy.

The Federal Farm Credit Board hereinafter provided for shall within 1 year after appointment make recommendations to the Congress of means, supplemental to those provided by this act, of carrying into effect such declared policy, including, but not limited to, means of increasing borrower participation in ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, production credit corporations, Central Bank for Cooperatives, and regional banks for cooperatives may be retired.

Since it took office in December 1953, the Federal Board has had 10 regular and 8 special meetings. The major portion of the Board's work to date has been concerned with the development of legislative

recommendations to carry out its responsibility under the provisions of the 1953 act.

As required by section 2 of that act, quoted above, the Board on December 8, 1954, transmitted to the Congress a special report setting forth its recommendations for legislation to accomplish the objectives of that act.

This report was published as Senate Document No. 7 of the 84th Congress. For the reasons set out in the report, the Board made no recommendations for the retirement of the Government capital in the Federal intermediate credit banks. Instead, it recommended that the Congress delay consideration of such legislation until the Board had made a further study of the problem.

A draft bill incorporating most of the recommendations contained in the special report of December 8, 1954, was submitted to the Congress in February 1955, and was introduced in the House as H. R. 5168 and in the Senate as S. 1286.

During the hearings on the bill, the representatives of a number of production credit associations appeared in opposition to certain provisions relating to the production credit corporations. These witnesses assigned different reasons for their opposition but the majority of them agreed that the matter should have further study.

Before enacting H. R. 5168 as the Farm Credit Act of 1955, the Congress deleted from the bill provisions which would have required the retirement of the Government capital in the production credit corporations and the gradual assumption by the production credit associations of the cost of their supervision.

The Farm Credit Administration was asked by the committee to give this entire problem further study and to make new recommendations on the subject at the next session of the Congress.

Senator HOLLAND. If I may interrupt at that point, the other provisions of last year's act, that is those relating to the Bank for Cooperatives and to other branches of the Farm Credit Administration were enacted, were they not?

Mr. BRIGGS. The Production Credit Corporation, section 201, was not passed, and we offered no legislation on the retirement of capital of the Federal Intermediate Credit Bank.

Senator HOLLAND. On that of the banks for cooperatives?

Mr. BRIGGS. The banks for cooperatives and the Federal Land Bank legislation was passed later.

Senator HOLLAND. Then the item of business remaining upon which your Board was to make recommendations to this session of Congress has to do with the Production Credit Corporations?

Mr. BRIGGS. Production Credit Corporations.

Senator HOLLAND. The Production Credit Corporations, and the Intermediate Credit Bank, is that correct?

Mr. BRIGGS. That is correct.

Senator HOLLAND. And the pending legislation relates to that subject or those subjects?

Mr. BRIGGS. That is right.

Senator HOLLAND. All right, sir. Proceed.

Mr. BRIGGS. It provides for a merger.

In the hearings on the farm credit bill last year it was indicated by some production credit associations that the provisions of that bill

relating to the production credit corporations had not been developed in close enough cooperation with the production credit associations who were expected to pay off the Government capital in the corporations.

As soon as it became apparent that a further study of this problem was necessary, the Board felt that further legislative recommendations in this regard should be developed at the "grassroots."

Therefore, the Federal Board arranged to hold an informal hearing in each of the 12 farm credit districts for the purpose of obtaining the views and suggestions of the production credit associations and the other users of the credit banks.

It was the desire of the Board to give the interested parties an opportunity to participate fully in the development of new legislative recommendations. In so doing, the Board followed much the same procedure which this committee has followed from time to time in the development of important farm legislation. These district meetings were held last summer during the latter part of July and the month of August.

The 498 production credit associations and the 90 other financing institutions (usually referred to as OFIs) using the facilities of the intermediate credit banks were notified of these meetings and urged to participate in them.

At these 12 meetings, 486 of the production credit associations—and by the way, that is 97 percent, and 63 of the OFIs, and that is 70 percent—were represented in those district meetings.

Although the full membership of the Federal Board attended only one of the meetings, each of the other meetings was attended by at least 3 members, including 2 of the 4 appointed from nominees of production credit associations.

In addition, the following were present: District Farm Credit Board members, the district representative of the National Advisory Committee of Production Credit Associations, the President of the Federal Intermediate Credit Bank, the President of the Production Credit Corporation, and three members of the Washington staff of the Farm Credit Administration.

In order to stimulate full and free discussion, the following procedure was followed at each meeting. One member of the Federal Board conducted all 12 of the meetings and discussed a number of questions which had been asked from time to time in regard to legislation affecting the production credit corporations and the Federal intermediate credit banks.

The Governor of the Farm Credit Administration discussed some important considerations involved in any legislation concerning these institutions. There were then presented to the group various alternative plans which had been suggested to the Federal Board as means for retiring the Government capital in the credit banks and the corporations. This was followed by a discussion and a question and answer period.

Emphasis was placed on the fact that the Board was not trying to sell any particular program but rather wanted to find out the thinking of the people who use the system. The second day of each meeting was devoted to testimony by the interested groups as to what legislative recommendations the Board should make to the Congress.

Following this series of these district meetings, a special committee of the Federal Board, composed of the member who conducted the 12 district meetings and the 4 members appointed from nominees of the production credit associations, met for a number of days to summarize and study the results of the meetings.

This special committee then reported to the full membership of the Federal Board at its regular October meeting held at Hershey, Pa.

This meeting of the Federal Board was held in conjunction with the National Farm Credit Directors' Conference, which is an annual meeting of the farm credit directors of all the 12 districts.

The Federal Board discussed the results of the district meetings with the district directors and then adopted a tentative legislative plan providing for merger of the intermediate credit banks and the production credit corporations.

This plan was incorporated in a draft bill which was considered at a special meeting of the Board held the first week in November 1955. The revised draft of the bill was then taken back to the country in November for a second series of meetings, 1 in each of the 12 farm credit districts.

The purpose of this second series of meetings was to explain the provisions of the draft legislation developed by the Board and to give the reasons why the Board had adopted the particular plan incorporated in the bill. These meetings were almost as well attended as the first series of meetings with 473 production credit associations—and that is 95 percent, and 53 OFIs, which is 60 percent—represented in the second district meeting.

It was explained to the group that the bill had been developed on the basis of the views of the majority of those who testified at the first series of meetings.

Those in attendance were also invited to offer suggestions for improvement in the bill and to make any comments regarding the proposed legislation.

At the conclusion of this series of meetings, the Federal Board held a special meeting the first part of December 1955 and agreed upon a final draft of the bill. This draft was then submitted to the Bureau of the Budget for the usual clearance.

I have gone into considerable detail in order that this committee may know that the bill recommended by the Federal Board is based on the views of the people directly concerned. The bill provides a plan which by far the greater majority of the production credit associations want and are willing to support.

Since these associations will have the major responsibility for retiring the Government capital in the credit banks and the corporations, it is proper that their views should have guided the Board in the development of its recommendations. We believe this was a sound approach.

We were advised by the Bureau of the Budget on March 14, 1956, that the Board's draft of the bill is a step in the direction of fulfilling the President's recommendation in his Farm Message of January 9, 1956, that the Federal intermediate credit banks and the production credit corporations be merged. The portion of the farm message in question reads as follows:

The Farm Credit Administration has been reorganized to give farmers a greater voice in its operation. Further legislation will be proposed to combine the production credit corporations and the Federal intermediate credit banks.

The Bureau of the Budget further advised, however, that the draft bill in its present form was not entirely in accord with the program of the President. It stated that the following changes would need to be made in the bill to bring the Board's proposal into accord with that program:

1. Upon liquidation of any Federal intermediate credit bank, after payment of all liabilities and retirement of all stock and participation certificates at par (or fact amount), any remaining portion of the surplus and reserves of the bank existing on the effective date of the new legislation should be paid into the Treasury as miscellaneous receipts. Under the Board's proposal, such surplus and reserves would be prorated among the existing stockholders of the bank.

2. The Federal intermediate credit bank should continue, after merger, to be subject to the budget provisions of the Government Corporation Control Act so long as the Government owns any stock therein. Under the Board's proposal, the banks would be taken out from under the budget provisions of that act but would remain under the audit provisions as are other "mixed-ownership Government corporations."

3. The total of the two revolving funds, available for investment in stock of the production credit associations and the Federal intermediate credit banks, should be held at the present level of \$130 million. Under the Board's proposal, the total of these revolving funds would be increased to \$160 million out of capital presently in the system.

For reasons explained in his letter, a copy of which is attached, the Budget Bureau Director advised that the Farm Credit Administration could submit for the consideration of the Congress a draft of the bill proposed by the Federal Board, together with a draft of the bill amended to conform with the President's program as set forth in the letter.

A copy of that letter accompanied the submission of the two drafts of the proposed legislation to the Congress. The two bills differ only in the three respects set out above. S. 3564 is the draft recommended by the Federal Board and S. 3550 includes the Budget Bureau amendments.

The Federal Board finds itself in a difficult position. It does not wish to appear to be in opposition to the program of the President, yet S. 3564 represents the judgment of the Board as how best to carry out the objectives of section 2 of the Farm Credit Act of 1953.

As indicated, the Board's proposal has been developed in close cooperation with the production credit associations and the other users of the Federal intermediate credit banks. On the basis of the information obtained at the meetings held throughout the country, it is evident that the great majority of the production credit associations favor the Board's proposal.

The Federal Board feels that it has carried out its responsibility under the Farm Credit Act of 1953 by developing and presenting for your consideration its recommendations which are incorporated in S. 3564.

We have also tried to make clear how the Board's recommendations would need to be modified to make them accord with the program of the President set forth in the letter from the Director of the Bureau of the Budget. Whether the Board's proposal should be so modified is for the Congress to decide.

Senator HOLLAND. Just a moment. As stated by the chairman of the subcommittee at the beginning of the hearing, there is before this committee not only the draft which represents the recommendations of the Board of the Farm Credit Administration, which is S. 3564, but also the draft which represents the bill as requested by the Bureau of the Budget, which is S. 3550.

Mr. BRIGGS. Both were filed.

Senator HOLLAND. There is also before the committee S. 3549, which represents the legislation as originally requested by the Farm Credit Administration Board, not including some recent technical changes and not including the recommendations of the Bureau of the Budget.

For all practical purposes is it necessary for the subcommittee to consider S. 3549 or simply to consider only S. 3550, which represents the Bureau of the Budget's opinion as drafted upon the original request of the Directors of the Farm Credit Administration, and S. 3564, which represents the last request of the Directors of the Farm Credit Administration without including the recommendations of the Bureau of the Budget.

Mr. BRIGGS. S. 3564 includes the full recommendation of the Federal Farm Credit Board.

Senator HOLLAND. To state my question briefly, the real differences in attitude will be reflected to the subcommittee by considering S. 3550 and S. 3564; is that right?

Mr. BRIGGS. That is right.

Senator HOLLAND. Thank you.

Mr. BRIGGS. Mr. Chairman, before closing I should like to give the committee a brief report on operations to date under title I of the Farm Credit Act of 1955, which became effective January 1 of this year.

Title I of that act contains provisions under which the banks for cooperatives will gradually retire all Government-owned stock in those banks. This is to be accomplished in part by cooperative borrowers investing in class C stock in amounts related to the interest on their loans from the banks.

The new law is applicable to all loans made after January 1, 1956, but not to loans made before that date except by agreement with the borrowers. We are pleased to report that about 80 percent of all the cooperative associations with loans outstanding on January 1, 1956, have voluntarily converted to the new basis and are purchasing class C stock of the banks.

Under the law, a borrowing association owning the "old stock" of a bank has the right to have such stock retired upon repayment of the loan.

However, of the \$20.6 million of "old stock" of the banks owned by cooperative associations on January 1, 1956, 75 percent, or more than \$15 million of that amount, has now been voluntarily converted to the new class B and class C stock of the banks which cannot be retired until all Government capital in the banks has been repaid. The conversion to class B and class C stock was made by 80 percent of the 2,562 associations which held stock in the banks on January 1, 1956.

Senator HOLLAND. In other words, if I understand it, something more than three-fourths of the associations have already accepted the provisions for retirement of the Government stock even as to loans which were outstanding when the legislation was passed?

Mr. BRIGGS. It is 80 percent of the number, Senator, and 75 percent of the dollar volume of loans.

Senator HOLLAND. They could have waited until the time that the law by its terms would automatically affect loans made after January 1 of this year?

Mr. BRIGGS. That is right. This \$20 million of old stock which the cooperative associations held, they might have continued to hold it and credited it against the loan when they repaid it, say in 5 years or 10 years. But they transferred that stock into class B and C stock which became the permanent capital of the bank, which they did not have to do under the requirements of the acts.

It shows good faith and performance. It shows an attempt on the part of cooperatives to take the Government out.

Senator HOLLAND. Well, I commend both the Board and the associations for that showing. It certainly indicates that they were in earnest when they requested the legislation in 1955.

Mr. BRIGGS. We used the reference because we believed the performance of production credit will be equally as good and equally as effective.

Here is a note on taxes. It is estimated enough class C stock will be issued, that is the voting stock during the 8-month period January 1, 1956, to June 30, 1957, to enable the banks to retire between 7½ and 8 million of Government-owned stock in the banks.

You may also be interested to know under the provisions of the Farm Credit Act of 1953, the banks for cooperatives have paid franchise taxes as follows:

<i>Period</i>	<i>Amount</i>
12 months to June 30, 1954-----	\$1, 166, 835
12 months to June 30, 1955-----	1, 553, 191
6 months to December 31, 1955-----	660, 510
Total-----	3, 380, 536

These early results of operations under the Farm Credit Act of 1955 are most encouraging and indicate a genuine enthusiasm on the part of borrowing cooperatives to retire the Government capital in the banks as rapidly as possible, which is one of the major objectives of that Act.

May I just conclude this statement by saying that we believe if this legislation is passed, and the production credit associations are permitted to take the Government out of the Federal Intermediate Credit Bank, that they will show the same good faith and performance that the cooperatives have shown, and do this job.

Senator HOLLAND. I compliment you on the statement, Mr. Briggs. The job that is to be done, however, under the pending legislation will probably take a good deal longer time, will it not, than that which is already moving ahead so rapidly under the 1955 legislation?

Mr. BRIGGS. We have provided that whenever agriculture is in a squeeze and whenever interest rates are high, the banks will have a narrower margin in their interest rates and smaller amounts will be paid to the Government in retirement of stock.

When conditions are good and money costs are low the banks will have a wider margin in their interest rates and a greater amount of Government capital will be retired.

We have provided the flexibility in the act which we think needs to be there for production credit associations.

Senator HOLLAND. Do either of you Senators have questions to ask?

Senator SCHOEPPEL. I have no further questions, Mr. Chairman. Unfortunately I must say that I have an appointment in one of the executive departments downtown at 11 o'clock and if the chairman of this subcommittee will excuse me, I assure him I will be back and attend all the other hearings.

Senator HOLLAND. We will do so with regret.

The next witness will be Governor Tootell.

STATEMENTS OF R. B. TOOTELL, GOVERNOR; HAROLD A. MILES, DIRECTOR, SHORT-TERM CREDIT SERVICE; JOHN C. BAGWELL, GENERAL COUNSEL; AND MARTIN H. UELSMANN, DEPUTY DIRECTOR, SHORT-TERM CREDIT SERVICE, FARM CREDIT ADMINISTRATION

Mr. TOOTELL. Mr. Chairman and gentlemen of the committee, I am pleased at this opportunity to appear before you in behalf of S. 3550 and 3564. I should like to introduce to you my associates who are going to help out with answering the questions.

Mr. Harold A. Miles, Director of Short Term Credit Service; Mr. John Bagwell, General Counsel, and Mr. Uelsmann, Deputy Director of Short Term Credit Service.

Senator HOLLAND. We are glad to have all you gentlemen here from the staff of the Farm Credit Administration.

If it is necessary for you to supplement your statement from any of these gentlemen, why we can call them right into the record.

Mr. TOOTELL. All right; thank you very much.

Mr. Briggs as chairman of the Farm Credit Board stressed largely the development of the legislation which is before your committee.

I should like if it is agreeable with you, to submit a copy of my formal statement for the record and then to discuss rather informally the major provisions of this proposed legislation, and then undertake to answer any questions which your committee might have.

Senator HOLLAND. First then we will place in the record your entire formal statement consisting of pages 1 to 31 inclusive.

Mr. TOOTELL. If you will, please.

(The prepared statement submitted by Mr. Tootell is as follows:)

I greatly appreciate the opportunity to appear before you and present the views of the Farm Credit Administration on S. 3564 and related bills which would make important changes in the laws relating to farm credit institutions concerned with short- and intermediate-term credit for farmers and ranchers. S. 3549 differs from S. 3564 in only minor respects and S. 3550 contains Budget Bureau amendments which will be explained in the course of my testimony.

The chairman of the Federal Farm Credit Board has reviewed with you the development of this proposed legislation. Before discussing its provisions, I would like to present some background information about the Federal Farm Credit System.

The Farm Credit Administration is an independent agency within the executive branch of the Government. The agency consists of the Federal Farm Credit Board, the governor, and other officers and employees. The Federal board consists of 13 members, 12 of whom are appointed by the President with the advice and consent of the Senate. The 13th member of the board is designated by the Secretary of Agriculture as his representative on the board. The Farm Credit Administration supervises, examines, and coordinates the activities of the credit agencies comprising the cooperative Federal Farm Credit System. The governor, under general supervision and direction of the Federal Farm

Credit Board is responsible for the execution of the laws creating the powers, functions, and duties of the Farm Credit Administration.

There are in each of the 12 farm credit districts a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. There is a Central Bank for Cooperatives located in the District of Columbia. Each district has a district farm credit board which also serves as the board of directors of each of the four district institutions. Each district farm credit board consists of 7 members, 2 elected by the national farm loan associations of the district, 2 by the production credit associations of the district, 1 by the cooperative associations which hold voting stock in the district bank of cooperatives, and 2 members appointed by the governor of the Farm Credit Administration.

The Federal land banks provide farmers and ranchers with long-term credit on farm real estate through approximately 1,100 national farm loan associations. The Federal intermediate credit banks discount agricultural paper for and make loans to production credit associations and other financing institutions (usually referred to as OFI's) which make short- and intermediate-term loans to farmers and ranchers. The production credit corporations are not themselves engaged in making loans but supervise the production credit associations. The banks for cooperatives extend credit to farmers' cooperative marketing, purchasing, and service cooperatives.

The cooperative Federal Farm Credit System provides qualified farmers with credit on a sound basis adapted to their needs and at interest rates based on the cost of money in the market plus the cost of operating the system, including provision for adequate reserves. Funds which are loaned by the farm credit institutions are obtained largely from the sale of bonds and debentures to the investing public.

Each borrower from a Federal land bank is required to become a member of the national farm loan association through which the loan is made. The association is a farmer-owned cooperative organization chartered and supervised by the Farm Credit Administration. The borrower subscribes to capital stock of the association in an amount equal to 5 percent of the face amount of his loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. Farmer members own all the capital stock of each of the approximately 1,100 national farm loan associations; and the associations, in turn, own all of the capital stock of the Federal land banks. Thus, the Federal land bank system is completely farmer-owned and has been since 1947 when the last of the Government capital was retired.

The production credit associations are cooperative organizations chartered by the Farm Credit Administration and supervised by the production credit corporations and the Farm Credit Administration. Each borrower from a production credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. The amount of class A (non-voting) stock of the associations originally owned by the production credit corporations has been reduced from a peak of \$90 million to about \$2.2 million and 440 of the 498 associations are now entirely farmer-owned. The production credit associations are, therefore, rapidly becoming wholly farmer-owned.

Under the provisions of the Farm Credit Act of 1955, enacted during the first session of the 84th Congress, each borrower from a bank for cooperatives is required to purchase quarterly class C (voting) stock in the bank in an amount related to the quarterly interest payable on its loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). The net earnings of the banks, after reserves, dividends on class B (investment) stock, and franchise taxes are provided for, are required to be distributed in class C stock to borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in an amount equal to the amount of class C stock issued for that year. Over a reasonable period of years it is expected that funds from the interest "override" and from net earnings will enable the banks to retire all class A stock now owned by the United States.

You will note that these farm credit institutions are either now wholly farmer-owned or else they are becoming so under existing law. There remain, however, two farm credit institutions—production credit corporations and Federal intermediate credit banks—which have always been and still are wholly Government-owned. Present law does not provide any means of converting either of them

to farmer-owned institutions. H. R. 10285 would provide the legislative tools for completing the job of converting all institutions supervised by the Farm Credit Administration to wholly farmer-owned institutions.

Before getting into the provisions of the bill, I should like to make a further statement with respect to those institutions principally affected by the proposed legislation.

FEDERAL INTERMEDIATE CREDIT BANKS

The 12 Federal intermediate credit banks were established in 1923 to provide agriculture with a permanent, stable, and dependable source of short- and intermediate-term agricultural credit. They were organized to serve as banks of discount and not as direct lending banks. They were authorized to discount agricultural paper for commercial banks and certain other types of private lending institutions, and later, for the production credit associations organized under the Farm Credit Act of 1933. In addition, the banks are authorized to make loans to and discount paper for the banks for cooperatives and to make certain types of loans direct to farmers' cooperative associations.

Prior to the establishment of the Federal intermediate credit banks, seasonal and short-term credit for agriculture was supplied principally by country banks, individual lenders, and merchants, including manufacturers and distributors of implements, machinery, fertilizer, etc. There were also a few agricultural credit corporations and livestock loan companies which, in turn, obtained funds for lending purposes by borrowing from and rediscounting with commercial banks. Under the Federal Reserve Act of 1913, the Federal reserve banks were authorized to discount agricultural paper with maturities up to 6 months offered by member banks.

Aside from emergency seed loans made by the Government, beginning in 1921, and the discounting of agricultural paper by the War Finance Corporation for a short period, there were no other Federal facilities available to meet the seasonal credit needs of farmers and ranchers until 1923.

The agricultural credit situation in the early 1920's was in a disorganized state. Credit was often difficult to obtain when most needed. Loans available from commercial banks were usually for 90 days, which was too short a period to meet the annual cycles of production, harvesting, and marketing peculiar to agriculture. It had become evident that the seasonal production credit needs of agriculture were not being met by existing agencies. As a temporary measure the Congress, in 1921 and 1922, amended the War Finance Corporation Act of 1918 to permit that corporation to make commodity loans to farmers' cooperatives and to extend credit to banks and to agricultural and livestock credit corporations to enable them to make and carry loans to farmers and ranchers. The agricultural lending powers thus given to the War Finance Corporation and its experience in that field in 1921 and 1922 proved most helpful in developing a permanent system for seasonal agricultural financing. It demonstrated that what agriculture needed was a source of credit based upon funds drawn from the investment markets of the country and not dependent upon local deposits.

In the light of these conditions, and after exhaustive studies and investigations, the Congress undertook to provide the means whereby investment funds could be made available to finance the production and marketing credit needs of agriculture. Since individual farmers and local lending institutions could not reach investors in the financial centers directly, it was concluded to set up an institution or system which, on the basis of obligations of a large number of farmers operating over a wide area, could sell its obligations in the large money centers. This would make funds available to agriculture on terms suited to the needs of farmers and ranchers and at rates of interest comparable to those paid by industry. The Federal intermediate credit banks were created to provide that service.

The establishment of the Federal intermediate credit banks as a secondary source of credit was expected to benefit farmers by enabling banks in agricultural areas to carry farmers' and ranchers' loans for longer terms, since they could rediscount the paper when in need of funds, and by encouraging the organization and operation of privately capitalized financing institutions which would make loans to farmers and rediscount them with these new banks. Some commercial banks did avail themselves of the services of the credit banks for a time and a considerable number of credit corporations were organized and operated for several years after the credit banks were established. A high percentage of the local credit corporations liquidated a few years after their

organization. Inadequate capital, incompetent management, unprofitable operations, unsound lending practices, and lack of supervision were important factors in the relatively short life of many of these institutions.

As unfavorable agricultural and economic conditions became more acute in the early 1930's, it became apparent that the short-term credit needs of agriculture were not being met because of the inadequacy of local institutions which could make the loans in the first instance, even though the rediscount facilities were sufficient to provide the necessary funds through sales of securities in the investment markets. Efforts to have local interests establish credit corporations and loan companies eligible to borrow from the credit banks were largely unsuccessful by reason of the lack of funds to capitalize such corporations. Thus, by reason of the inability of private lending agencies to meet the need for short-term agricultural credit, the objectives sought through the establishment of the intermediate credit banks were not fully accomplished. An adequate source of secondary credit was of little benefit to agriculture if primary lenders did not make the funds available to individual farmers. It was in this setting that the Congress provided, in the Farm Credit Act of 1933, for the establishment of a system of local cooperative production credit associations which would make the rediscounting services of the Federal intermediate credit banks available to every farmer in the United States who has a satisfactory basis for credit.

As a result of the growth and development of the production credit system, the major part of the credit business of the banks is now done with the production credit associations. During the fiscal year 1955, about 88 percent of the banks' average daily balances of loans and discounts outstanding were accounted for by the production credit associations. In the fiscal year 1954, that percentage was 87. Among the farm credit districts this percentage ranged in the fiscal year 1955 from 66 to 96 percent.

Most of the business now handled by the credit banks for institutions other than the production credit associations, that is the OFI's, is for State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

The Federal intermediate credit banks were provided with an initial capital of \$5 million for each bank subscribed by the United States. Additional capital for the credit banks was provided by an act of Congress approved January 31, 1934. That act made available to the Farm Credit Administration a revolving fund of \$40 million and authorized the Governor, with the approval of the Secretary of the Treasury, to subscribe for and to pay in such additional capital and paid-in surplus as he deemed necessary to enable any intermediate credit bank to meet the needs of its eligible borrowers. As of December 31, 1955, the Government's capital investment in the banks was \$62.4 million consisting of the original \$60 million of capital stock and \$2.4 million of paid-in surplus. The law has never provided for ownership of capital stock of these banks except by the United States.

The intermediate credit banks finance their lending operations primarily through the issuance and sale to the investing public of consolidated collateral trust debentures and by direct borrowings from commercial banks. During the fiscal year 1955, these banks issued \$1,046,330,000 of debentures. At the end of that fiscal year there were \$793,480,000 in debentures outstanding. These debentures are the joint and several obligations of the 12 Federal intermediate credit banks. They are not guaranteed either as to principal or interest by the Federal Government.

PRODUCTION CREDIT SYSTEM

This system consists of 12 production credit corporations, which are wholly Government-owned, and 498 production credit associations, 440 of which are wholly farmer-owned.

The production credit corporations were established under the Farm Credit Act of 1933 to organize, capitalize, and supervise the production credit associations in order to provide agriculture with a permanent and dependable source of short-term credit on a cooperative basis.

The production credit corporations were capitalized by stock subscriptions on behalf of the United States out of a revolving fund of \$120 million. As each production credit association was organized, the district production credit corporation subscribed to a sufficient amount of its class A (nonvoting) stock to permit it to begin lending operations. As stated above, each borrower from the association is required to own class B (voting) stock in an amount equal to 5 percent

of the amount of the loan. Farmers and ranchers own approximately \$23 million of class A (nonvoting) stock in their associations. This is an investment they have made above what the law requires them to own in connection with their loans. Most of the associations have chosen to devote all their net earnings to building up their financial strength. As a result, their members have foregone any return on their stock investment. This has been done as a matter of loyalty to their association and to speed the day when their local association might be completely member-owned. As capital investments by members grew and earnings of the associations accumulated, the capital stock held by the corporations was retired and the proceeds returned to the corporations. This plan of operation has enabled the associations to retire all but about \$2.2 million of the approximately \$90 million of Government capital invested in them and only 58 associations have any Government capital left.

As of December 31, 1955, the corporations had outstanding capital stock owned by the United States in the amount of \$31,350,000 and earned surplus and reserves of about \$13,500,000. There remains in the revolving fund \$58,650,000 available for future subscriptions to the stock of the corporations, \$30 million having been returned in 1949 from the revolving fund to the general fund of the Treasury. The operating costs of the corporations are paid out of earnings on the investment of their Government capital and out of their earned surplus and reserves.

As of December 31, 1955, about 479,000 farmers and ranchers owned capital stock (classes A and B) of the associations amounting to approximately \$98 million. The surplus and reserves of all associations totaled \$97 million on that date. In addition to these accumulated earnings, the associations had set aside out of earnings about \$10 million as specific and general provisions for bad-debt losses. The associations are authorized to issue class C stock but so far none has been issued. The volume of loans made by the 498 associations during the calendar year 1955 was approximately \$1,400 million. We believe these figures clearly show the progress that has been made in building a sound, cooperative, production credit system for agriculture.

The function of the corporations to organize and capitalize the production credit associations has been largely achieved. There is, however, a continuing need for production credit associations to have available to them revolving fund capital which can be subscribed to supplement their members' capital when necessary and appropriate in order to maintain credit service. This important function must be continued after merger, and the legislation before you makes adequate provision for this in order that the associations may be able to meet the credit needs of agriculture.

The most important remaining function of the corporations is that of assisting in supervising the production credit associations. Supervision and training in credit and operating matters have been important factors in the growth and development of the local associations, both as to their financial strength and in extending sound credit service to agriculture. The production credit corporations prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations also assist in the training of employees, prescribe and approve loan-interest rates, approve the compensation of personnel, and generally guide the associations in the conduct of their business and service to agriculture. We believe that important supervisory functions must be continued, and the legislation makes adequate provision therefor as will be explained later.

I will now discuss the provisions of the bill.

The bill contains an important statement of policy relating to agricultural credit. It is declared to be the major purpose of the bill to continue to provide agriculture with a sound, dependable, and effective source of credit. To that end the policy of the legislation is to encourage and promote the continued growth and development of the production credit associations as self-supporting, cooperative, lending institutions serving the needs of agriculture. The policy declaration also, in effect, dedicates the credit banks to the service of all agriculture. Its facilities are declared to be equally accessible to the production credit associations and to all other eligible primary lenders. This would be true even after the production credit associations became the owners of the banks. Continued availability of the facilities of the banks to all qualified primary lenders, both within and without the Federal farm credit system, is essen-

tial to a nationwide agricultural credit system. The facilities of the credit banks are of benefit to farmers only to the extent that funds reach them through primary lenders. It is in the interest of agriculture generally to protect all users of the credit banks and the policy statement is designed to do just that.

Merger of corporations and credit banks

Section 101 of the bill provides for the merger of the production credit corporation of each district in the Federal intermediate credit bank of the district. The merged institution would continue to be known as the Federal intermediate credit bank. Except for stock in the production credit associations now held by the production credit corporations, all assets of the corporation would be transferred to the credit bank and the bank would assume all obligations of the corporation. The stock which the production credit corporations now hold in the production credit associations would be transferred to the Governor and a like amount of stock which the Governor now holds in the corporations would be canceled.

Section 101 of the bill provides for a continuation of the necessary supervisory and service functions heretofore performed by the production credit corporations. Most of these functions would be transferred to the credit banks. The need of the production credit associations for assistance and supervision is generally recognized.

The Federal Board deliberated at length the question of how best to provide the associations with the necessary supervision and assistance. It was first thought that the production credit corporations should continue to perform these functions and the farm credit bill considered by this committee last year so provided. After obtaining the views of the production credit associations and upon further consideration of the problem, the Federal Board has concluded that these functions can be carried out effectively by the credit banks at some overall savings in cost. In addition, merger of the corporations in the credit banks will simplify the corporate setup of farm credit at the district level and, we believe, result in an improved credit service to farmers and ranchers.

The bill directs the Farm Credit Administration to provide for the organization and assignment of functions within the credit banks in a manner which will assure proper supervision of and assistance to the production credit associations. This would authorize a separation of discounting and supervisory functions within the banks if deemed necessary to assure helpful and effective supervision of the associations independent of the present discounting functions of the banks. Although all officers and employees of the bank would be responsible to the president and the board of directors, under such a separation those directly responsible for discounting operations would not be responsible for supervising the institutions rediscounting with the banks. Thus, the bill obligates the Farm Credit Administration to provide for appropriate handling of the discounting and supervisory functions of the merged institutions consistent with recognized principles of good business management.

The cost of these supervisory and service functions would be paid by the banks. The income derived from the existing surplus of the production credit corporations which is now devoted to the payment of such costs would continue to be so used after merger. It is anticipated that the merger will result in substantial savings in operating costs.

Section 101 of the bill also provides the manner in which the board of directors of each bank shall select officers and employees for the merged institution. The officers and employees of the bank and corporation would become officers and employees of such institution to the extent they are qualified and needed. The bill is so drawn that there would be no break in the continuity of service of officers and employees who are retained and consequently their retirement rights would be protected.

Stock of the banks after merger

Section 102 of the bill contains amendments which would provide a new capital structure for the banks. After merger there would be 2 classes of stock: class A with a par value of \$100 and class B with a par value of \$5. The banks now have only one class of stock, all of which is owned by the Government.

Class A stock.—On the effective date of the legislation, the present stock of each credit bank now held by the Secretary of the Treasury, amounting to \$60 million for all 12 banks, would be transferred to the Governor of the Farm Credit Administration. The Governor would be authorized to reallocate this capital by appropriate transfers of funds among the several banks. Under existing law

each bank is required to have a minimum paid-in capital of \$5 million, regardless of its volume of business. Under the proposed authority to reallocate present capital the Farm Credit Administration would be able to provide each bank with a capital structure more nearly in proportion to its volume of business and related borrowings. After this adjustment in the capital of the banks, the then existing stock of each bank would be exchanged for an equal par amount of class A stock of the bank. Stock of the production credit corporations held by the Governor on the effective date of the legislation, less the amount canceled by reason of the transfer of the production credit association stock held by the corporations, would also be exchanged for an equal par amount of class A stock of the banks. All such class A stock would be held by the Governor on behalf of the United States and no dividends would be paid on such stock.

The bill provides for the retirement of class A stock on a flexible basis. Whenever the net worth of the bank amounts to more than one-sixth of its highest month-end balance of debentures and other such obligations outstanding during the preceding 5 years, the minimum amount of class A stock which the bank would retire would be the total amount of class B stock and participation certificates issued for that year. As will be explained later, class B stock would be issued to the production credit associations and the participation certificates would be issued to the OFI's. Whenever at the end of any fiscal year the net worth of the bank amounts to one-sixth or less of such outstanding indebtedness, the amount of class A stock to be retired would be determined by each bank. Thus, the provisions relating to the retirement of class A stock afford a considerable degree of flexibility and would permit the banks to accelerate or retard retirements of capital stock in accordance with variations in the credit demands upon them.

The proceeds from the retirement of class A stock would be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock issued by the bank in exchange for the stock of the production credit corporation of the district. The proceeds from further retirements of class A stock of the bank would go into the revolving fund which under present law is available for investment in capital stock of the credit banks when the need therefor arises. The present \$90 million revolving fund available for investment in capital stock of the production credit associations would be reduced to \$60 million.

Class B stock.—Class B stock would be issued only to production credit associations. The associations would be required, within 60 days after the effective date of the legislation, to subscribe to an aggregate amount of class B stock equal to 15 percent of the total amount of class A stock of all 12 banks. In dollars, this would amount to about \$13 million for all 498 production credit associations. This amount would be apportioned among the associations on the basis of their use of the banks during the previous 5-year period; that is, each association would be required to subscribe to class B stock in an amount slightly in excess of 2 percent of the average amount of the loan and discount indebtedness of the association to the bank during the immediately preceding 5 years. The associations would be given a period of 2 years in which to pay for such stock subscriptions.

The class B stock subscription of an association with a \$1 million average volume of loans and discounts with the bank would be approximately \$20,000. This subscription would be paid in three installments. One-third, or approximately \$6,700, would be paid within 2 months after the effective date of the legislation, another one-third would be paid within a year, and the remaining one-third would be paid within 2 years. A typical production credit association with an average volume of loans and discounts of \$1 million at the bank probably would have a net worth ranging between \$275,000 and \$300,000.

The bill is designed to permit maximum flexibility in setting the banks' discount rates which will determine their earnings. During periods of relatively high money costs, or of unsatisfactory agricultural conditions, it is expected that the spread or margin between the discount rate and the cost of money to the banks would be narrow. When money costs are relatively low and agriculture is in a more satisfactory condition the interest spread would be wider, the earnings of the banks would be greater, and Government capital would be retired more rapidly. This flexibility in the rate of paying off Government capital in the credit banks is one of the important features of the bill. It keeps before the banks and associations the goal of adequate progress toward retirement of that Government capital, but permits a desirable and necessary degree of latitude in the amount of annual payments for that purpose. It will

protect the associations from the rigidity of a fixed schedule of annual payments, which in times of high money costs and reduced net income in agriculture would place undue additional burdens on the associations and their members.

It is estimated that after the merger becomes effective the 12 Federal intermediate credit banks as a system will be able to meet their operating costs out of investment income and an average interest spread of $\frac{1}{40}$ of 1 percent between their lending rates and the cost of money. In other words, taking investment income into account, the average "break even" point for the 12 banks will be about $\frac{1}{40}$ of 1 percent, although that rate will vary among the different banks. It is expected that over the entire period of purchase this spread will average around $\frac{1}{2}$ of 1 percent. The average spread during the past 10 years has been slightly less than $\frac{1}{4}$ of 1 percent. With an average spread of $\frac{1}{2}$ of 1 percent it is expected that most of the banks would retire all Government capital within a period of less than 30 years. Some banks would pay out in less than 20 years. These estimates are based upon the assumption that the future volume of business of the banks will be slightly more than their present loan and discount volume.

After all class A stock is retired, noncumulative dividends of not to exceed 5 percent would be authorized to be paid on class B stock and participation certificates. After all class A stock is retired, the banks would be authorized to retire class B stock at par and participation certificates at face amount in accordance with the cooperative principle of retiring first the oldest outstanding stock and certificates. In the event of liquidation or dissolution of a production credit association or an OFI, the bank could at any time also retire at book value, not exceeding par or face amount, class B stock and participation certificates of the bank owned by such association or institution.

Lien on stock and participation certificates.—The bank would have a first lien on all stock in the bank owned by the production credit associations and on all participation certificates owned by OFI's as additional collateral for any indebtedness owing by the holders to the bank. The bank, however, would be prohibited from making any loan or advance on the security of its own stock or participation certificates.

Application of earnings

Section 103 of the bill contains amendments which would provide a new method for application of net earnings of the banks. After providing for valuation reserves and for any losses in excess of such reserves, the net earnings of each bank would be applied, first, to restoring any impairment in the capital stock and participation certificates; second, to restoring any impairment in the surplus account of the bank; third, 25 percent of the remaining net earnings would be used to create and maintain a reserve account equal to 25 percent of the outstanding stock and participation certificates of the bank; fourth, if any class A stock is outstanding during all or any part of the fiscal year, the bank would pay 25 percent of the remaining net earnings to the Treasury as a franchise tax, not exceeding, however, a rate of return on the Government's investment in the bank equal to the average cost of money to the Treasury; fifth, if no class A stock is outstanding, the remaining net earnings would be available for payment of dividends of not to exceed 5 percent on class B stock and participation certificates; and sixth, any remaining net earnings would be distributed as patronage refunds to the production credit associations and the OFI's patronizing the bank. As long as there is any class A stock outstanding, patronage refunds would be paid in class B stock to the production credit associations and in participation certificates to the OFI's. After all class A stock is retired, patronage refunds could be paid in class B stock and participation certificates or in cash at the election of the bank. Recipients of patronage refunds in the form of class B stock and participation certificates issued at the time class A stock is outstanding would not be subject to Federal income taxes on such refunds. Since the class B stock and participation certificates would have no realizable cash value, they would not in any real sense constitute income to the recipients. This exemption would not apply to patronage refunds made after all class A stock of the bank is retired.

Section 103 of the bill also specifies how losses are to be absorbed in any year in which the bank has a net loss. Such losses would be charged, first, to the reserve account; second, to surplus other than that transferred to the bank from the production credit corporation; third, to surplus transferred to the bank from the production credit corporation; fourth, by impairment of class B stock and participation certificates; and fifth, by impairment of class A stock.

Surplus account

Under section 103 of the bill, each bank would be required, on the effective date of the legislation, to establish a surplus account consisting of its earned surplus, its reserve for contingencies, and the surplus transferred to the bank from the production credit corporation. For all 12 banks this would amount to about \$62.5 million. This surplus would not be allocated and it could not be paid out in the form of patronage or other dividends. It would be "frozen" as a part of the permanent structure of the bank. Such surplus would, however, be available to absorb losses but any impairment would have to be restored before net earnings could be used to pay dividends.

Distribution of assets upon liquidation

Section 103 of the bill also provides for the distribution of assets in the event of liquidation or dissolution of any bank. After payment of debts, class A stock would first be retired at par and then class B stock and participation certificates would be retired at par or face amount. The remaining assets would be distributed, first, by prorating among class A and class B stockholders any surplus established on the effective date of the legislation; and second, by prorating any residual assets among the holders of class B stock and the holders of participation certificates.

Discounts and loans

Section 104 of the bill contains a number of amendments to existing law relating to the discount and lending authority of the credit banks.

Under present law a credit bank may make loans to production credit associations upon any security approved by the Governor of the Farm Credit Administration, such as Government bonds, but loans to OFI's may be made only on the security of agricultural paper eligible for discount by the bank. Section 104 of the bill would remove this discrepancy and permit loans to OFI's on such collateral as may be approved by the Governor, provided the proceeds are used to make or carry loans for agricultural purposes.

Under present law the credit banks are authorized to make certain types of loans direct to farmers' cooperative associations. This authority duplicates to some extent the lending functions of the banks for cooperatives. Under section 104 of the bill the banks could make loans to farmers' cooperative associations only to enable them to make loans to farmers and ranchers for agricultural purposes. This section of the bill also would permit credit banks to make temporary loans to Federal land banks and banks for cooperatives upon terms and at interest rates approved by the Farm Credit Administration.

The credit banks now have authority by law to discount paper with maturities up to 3 years. Section 104 of the bill would increase this limit to 7 years. This provision would permit the production credit associations and OFI's to meet the demands of farmers for longer term loans. It is recognized, of course, that farmers and ranchers have need for loans for semicapital purposes which ordinarily require more than 1 year to repay. Such purposes would include bulk milk tanks, heavy equipment, soil-conservation practices, farm buildings and repairs, and other comparable items. The associations have always financed operations of these types, but have taken 12-month notes and freely renewed the balance where performance has been satisfactory. However, a strong demand has arisen for more realistic terms of maturity for obligations of the types mentioned. This amendment will permit the credit banks to discount loans with longer maturities in proper cases and thus render a more flexible and effective credit service in this field.

Under existing law discount and interest rates charged by the credit banks may not, except with the approval of the Governor of the Farm Credit Administration, exceed by more than 1 percent the interest rates borne by the last preceding issue of credit-bank debentures. Section 104 of the bill would remove this limitation and authorize the credit banks to determine the discount and interest rates to be charged by them, subject to the approval of the Farm Credit Administration. The bill would require that the same interest rates apply to both the production credit associations and the OFI's.

Section 104 of the bill would also amend existing law to authorize the Federal land banks to make loans to the credit banks and to banks for cooperatives. This and other provisions of the bill, coupled with provisions of existing law, would authorize complete interbank borrowings within the farm-credit system upon terms and rates of interest approved by the Farm Credit Administration. Frequently the need of some banks of the system for funds for short periods

could be met by loans from other banks with idle funds. It is in the interest of economy and efficiency to permit such interbank borrowings.

The remainder of title I of the bill contains, for the most part, amendments to the Farm Credit Acts of 1933, 1937, and 1953. These amendments are largely technical changes made necessary by reason of the merger of the production credit corporations and the Federal intermediate credit banks. One of the changes, however, dealing with the revolving funds, is important enough to comment upon.

Revolving funds

Section 105 of the bill would amend section 5 of the Farm Credit Act of 1933 to reduce to \$60 million the revolving fund which is now available for the purchase of stock in the production credit corporations but which, under the terms of the bill, would become available for the purchase by the Governor of the Farm Credit Administration of stock in production credit associations. This revolving fund was originally \$120 million, but \$30 million thereof was returned in 1949 to miscellaneous receipts of the Treasury. It is our feeling that a revolving fund of \$60 million would be adequate for the purpose of capitalizing production credit associations, including reinvestment in class A stock of those associations needing additional capital because of drought or other adverse conditions.

Section 105 of the bill would also increase from \$40 million to \$100 million, from capital already in the system, the revolving fund out of which the Governor is authorized to purchase capital stock of the credit banks. Under this provision of the bill the proceeds from the retirement of class A stock of the banks, amounting to \$60 million for all 12 banks, would be paid into the revolving fund and continue to be available for reinvestment in the credit banks as the need therefor arises. In view of the present agricultural situation, it is anticipated that short-term credit in increasing volume will be required by farmers and ranchers and it is essential that adequate capital funds be available to support borrowings by the banks to finance the volume of credit they will be called upon to supply.

Miscellaneous provisions

Section 201 of title II of the bill would remove the credit banks from the group of "wholly owned Government corporations" named in section 101 of the Government Corporation Control Act and add them to the "mixed-ownership Government corporation" named in section 201 of that act. This would mean that the credit banks would no longer be subject to the budget provisions of that act requiring the submission of an annual budget program and an annual authorization by the Congress for the expenditure of the banks' funds for administrative expenses. As "mixed-ownership Government corporations," the banks would continue to be subject to audit by the General Accounting Office as long as there is any Government capital in them. The amendments contained in section 201 of the bill would give the Government Corporation Control Act the same applicability to the credit banks as it has to the Federal land banks and the banks for cooperatives.

Section 201 of the bill would also amend the National Bank Act to remove the present limitation on national banks investing in debentures issued by the banks for cooperatives. A national bank is now prohibited from investing in such securities an amount exceeding 10 percent of its paid-in capital and unimpaired surplus. This limitation is not applicable to bonds issued by the Federal land banks or to debentures issued by the Federal intermediate credit banks and the proposed amendment would place all such farm-credit securities on the same basis insofar as their purchase by national banks is concerned.

I should like now to discuss more specifically the status of financing institutions other than the production credit associations under the proposed legislation. These other financing institutions (usually referred to as OFI's) consist largely of privately owned credit corporations, various types of cooperative credit institutions, and a few commercial banks. The OFI's, except national banks and Federal credit unions, are chartered under the laws of various States and none of them is subject to supervision by the Farm Credit Administration. Unlike the production credit associations which are restricted to borrowing from and rediscounting with the credit banks, the OFI's are free to obtain funds from any source to finance their lending operations. There are at this time approximately 90 OFI's rediscounting with and borrowing from the credit banks. During the fiscal year ended June 30, 1955, they contributed about 9 percent of

the volume of business of the 12 banks. Among the several districts these percentages ranged from 1½ percent in Columbia to nearly 25 percent in the Berkeley bank.

Some of the OFI's have expressed objection to the legislation for reasons which you doubtless will hear from them directly during the course of the hearings. We in Farm Credit feel that the services of the intermediate credit banks should continue to be fully available to such institutions as heretofore. It is the declared purpose and intent of the proposed legislation to assure a continuation of such services. It is our view, therefore, that the objections to the bill voiced by some OFI's are not well founded.

One of the principal objections of the OFI's to the proposed legislation is that they would not be permitted to acquire ownership in the banks on the same basis as the production credit associations. The Federal Farm Credit System is made up of cooperative institutions supervised by the Farm Credit Administration. They are, for the most part, farmer-owned and the policy of the Farm Credit Act of 1953 is to encourage and facilitate increased farmer ownership and control of all institutions in the System. The OFI's with which the credit banks are authorized to deal consist of a wide variety of types of organizations. They include State and national banks; agricultural credit corporations organized by banking interests and operated as affiliates or companion lending agencies; agricultural and livestock credit corporations set up as subsidiaries or affiliates of farmers' cooperative associations; and credit corporations organized by small groups of local investors to engage in the lending business. Credit unions also may rediscount with and borrow from the credit banks. Thus, the OFI's represent widely differing interests. They are organized under statutes of various jurisdictions; they do not serve common purposes or objectives and are not under a common supervisory authority. The majority of them are organized and operated for profit and are not farmer-owned.

In contrast to OFI's, the production credit associations are local cooperative farmer-owned organizations which exist for the single purpose of making sound loans to their members; they are organized and operate under a single Federal statute, with similar policies and objectives; they are subject to a consistent pattern of supervision and examination through the Farm Credit Administration; they elect 2 members of the 7-man board of directors in each district and participate in the nomination of persons for consideration by the President in selecting members of the Federal Farm Credit Board; and these associations furnish the great bulk of the business of the credit banks. It is wholly consistent with the concept of the Federal Farm Credit System, as a coordinated group of cooperative institutions to be owned by farmers and ranchers, that the purchase of the credit banks should be accomplished by the production credit associations acting together to that end.

The fear has been expressed that once the credit banks are completely owned by the production credit associations an effort will be made to have the services of the credit banks limited to production credit association business. There are two reasons why this cannot happen. First, the declared policy of this bill makes it perfectly clear that the services of the credit banks shall continue to be available to the OFI's on the same basis as to production credit associations even after the banks are completely owned by the associations. Second, under the bill the banks will continue to be controlled by the several district farm credit boards and operate under the general supervision of the Federal Farm Credit Board. The production credit associations elect only 2 of the 7 members of the district board. The district board and the Federal Board are set up to represent all phases of agricultural financing and have responsibility for proper administration of the laws enacted by the Congress. It is inconceivable to us that the district board or the Federal Board would permit discrimination in any way against the OFI's. Indeed, under the provisions of the bill it would be contrary to law for them to do so. Therefore, under the provisions of the bill and in view of the board representation on the district board and the Federal Board, the OFI's need have no fear about their right to the continued use of the facilities of the credit banks.

To summarize, the proposed legislation provides definite rights and benefits to the OFI's as follows:

1. The OFI's are guaranteed the right to utilize the credit facilities of the Federal intermediate credit banks upon the same terms and at the same rates of interest as the production credit associations.
2. The banks would be authorized to make direct loans to OFI's on the security of any collateral approved by the Governor, as may now be done for the production

credit associations. The present law does not specifically authorize direct loans to OFI's except on the security of notes eligible for discount by the banks.

3. The production credit associations are restricted to borrowing from and rediscounting with the credit banks, whereas the OFI's are free to obtain funds from any source.

4. The OFI's would share in the future net earnings of the credit banks on the same basis as the production credit associations, that is, on the basis of patronage. If a dividend is paid on class B stock held by production credit associations, a like dividend must be paid on participation certificates held by OFI's.

5. Participation certificates held by OFI's would be entitled to the same rights as those applicable to class B stock held by production credit associations with respect to retirement of such holdings. Although liquidation or dissolution of the credit banks is not intended or foreseeable, the OFI's would in such eventuality share in the surplus and reserves of the banks accumulated after the effective date of the bill on the same basis as the production credit associations.

Senator HOLLAND. Now you may proceed to give the highlights in as brief and informal a manner as you may choose.

Mr. TOOTELL. Mr. Chairman, I should like to remind this committee that the Farm Credit Administration is an independent agency in the executive branch of the Government. It no longer is a part of the Department of Agriculture, although we still are housed in the South Agriculture Building and work very closely with the folks in Agriculture. You will recall the Farm Credit Act of 1953 again made the Farm Credit Administration an independent agency.

The Farm Credit Administration is made up of a 13-man board created by the act of 1953, and by the Governor and his staff.

Its function is to supervise, to examine, and to coordinate the functions and activities of the district cooperative credit units.

Now there are 12 farm credit districts in the United States, and in each of them there are 4 farm credit institutions, the Federal Land Banks, which had their beginning in 1916; Federal intermediate credit banks which came into being in 1923; the production credit corporations, and the banks for cooperatives which came into being in 1933.

Then in each of these 12 districts there is a district farm credit board which serves also *ex officio* as the board for each of these 4 institutions. It is made up of 2 directors elected by the borrowers from the Federal land bank system through the National Farm Loan Associations, 2 that are elected by the Production Credit Associations in the district, and 1 elected by the borrowers from the banks for cooperatives.

That leaves 2 that presently are appointed by the Governor of the Farm Credit Administration with the advice and consent of the Federal Farm Credit Board.

As the cooperative banks get more of their capital paid out, they will eventually be entitled to a second elected representative on the district board, and that would leave only 1 to be appointed by the Governor of the Farm Credit Administration.

The Federal land banks, as you may recall, make loans through the National Farm Loan Associations, those local cooperative units of which there are 1,100 in the United States.

Land bank loans are long-term farm mortgage loans, usually for terms of 20 to 35 years.

The intermediate credit banks do not make loans directly to farmers but rather are banks of discount.

The production credit corporations make no loans either. They are there for the purpose of supervising and rendering certain service

to the production credit associations, the local units through which the intermediate credit banks make most of their loans directly to farmers.

And then the banks for cooperatives again make no loans directly to farmers, but rather loan to farmers' cooperative associations.

These units of the cooperative credit system provide farmers credit at cost whenever they have a sound basis for credit. The funds which they have to lend to farmers are derived largely from the sale of bonds and debentures to the investing public. These securities are not nor have they ever been guaranteed either as to principal or interest by the Federal Government.

The Federal land banks were the first to retire the Government capital that was subscribed to get them started back in 1916. In 1947, they retired the last of their Government capital, and since that time have been owned entirely by their farmer borrowers. The production credit associations of which Mr. Briggs spoke, have also largely accomplished this goal of farmer ownership.

Originally \$90 million of Government capital was subscribed to getting the production credit association started back in 1933 and 1934, and all but \$2.2 million of that \$90 million has been repaid.

We feel that that is an excellent record. Each borrower from a production credit association just the same as a land bank through national farm loan associations is required to subscribe to an amount of stock up to 5 percent of his loan, and it is those stock subscriptions on the part of the borrowers that has largely resulted in the building up of user capital and enabling them to retire Government capital.

You will note now that 2 of the farm credit institutions in each district either have retired all their Government capital or have a mechanism set up for doing it.

I should say 3 of them, the Federal Land Banks, production credit associations, and the banks for cooperatives. But the two that are concerned in this legislation, the production credit corporations and the intermediate credit banks, are wholly Government owned. They have been from the beginning, and there has never been any mechanism set up to enable them to retire the Government capital. That is a primary objective of this legislation.

Senator HOLLAND. In other words, the primary objective of this legislation is to allow the conversion to farmer-owned institutions of those 2 branches of the farm credit system?

Mr. TOOTELL. That is right, Senator Holland, and along with that, an objective we think equally important, is bringing about what we believe will be an even more effective service to the farmers, through a number of the changes which will be accomplished and on which we will comment as we go along.

Senator HOLLAND. Does this legislation relate wholly then to the production credit corporations and the Federal intermediate credit banks?

Mr. TOOTELL. It does, sir, except for 2 or 3 minor tie-ins. One, for instance, that has to do with the matter of interinstitution borrowing which would permit a land bank to lend funds or to borrow funds occasionally from an intermediate credit bank or permit a bank for co-ops to do the same thing.

But aside from 2 or 3 minor things of that kind, this relates entirely to the intermediate credit banks and production credit corporations.

Senator HOLLAND. There is nothing here that would affect or impair the complete independence of action and the complete independence of control of the banks for cooperatives and the land banks?

Mr. TOOTELL. That is right.

Senator HOLLAND. You may proceed.

Mr. TOOTELL. I would like to review with you gentlemen just a little bit the history of short-term credit financing for farmers.

You will remember that for a very long time farmers relied almost entirely on borrowing from individuals, from mercantile establishments, and from commercial banks for the funds that they needed to make a crop each year and to provide for other production financing.

There were a good many weaknesses in that, the biggest one being that usually when the farmer had the greatest need for credit, the merchants or the individuals were also pressed for ready funds, and the commercial banks often at those times did not have deposits which would permit them to meet the farmers' needs.

Back in the agricultural depression that followed right after World War I, or in 1921, the War Finance Corporation did give some assistance of an emergency nature in agricultural financing.

About that same time the first Federal seed loan was established. But there was a great vacuum that Congress took cognizance of in the early twenties, and it was at that time and under those conditions that the Federal intermediate credit bank system was established.

And that furnished a mechanism whereby farmers could pool their individual credit and go into the money markets of the country and obtain access to investment funds on about as favorable terms as commercial and industrial institutions had been doing right along.

That was the objective of setting up the intermediate credit banks. They were established as discounters of agricultural paper rather than as primary lenders.

It was the thought of Congress that commercial banks would discount paper with the intermediate credit banks at times when they did not have sufficient deposit funds. It was thought that farmers would organize agricultural credit corporations and livestock loan companies in great numbers to avail themselves of the services of the intermediate credit banks.

And as a matter of fact, there have been, since 1923, about 1,200 of these privately capitalized agricultural lending institutions or commercial banks that have discounted with the intermediate credit banks. At the present time there are only 94.

Senator HOLLAND. Those are the organizations which you referred to as the OFI's?

Mr. TOOTELL. That is right, sir, other financing institutions.

A great many of these 1,200 failed. Some because of lack of capital, others because of lack of supervision, and then a good many of them were organized just to fill a need at a particular time.

That is particularly true of agricultural credit departments that were organized in commercial banks. They became inactive or dissolved when the current need for them passed.

Up to 1933, those privately capitalized and those privately financed loan companies and commercial banks were the ones, and the only ones, who used the services of the intermediate credit banks.

The volume of farm operating financing that was financed through those sources was a great disappointment to the Congress. Only a

very, very small percentage of farmers' needs for operating capital were being met, not because we did not have a good discount banking system, but because the best discount banking system is of little value unless you have primary lenders that make the service available to farmers, and avail themselves of the opportunity to discount.

Actually the credit banks were largely a failure up to 1933. A failure because these primary lenders did not come into being as the Congress had visualized back in the twenties. And it was for that reason that the Congress in 1933 brought into being a system—the production credit system—which made the services of the intermediate bank available to every farmer in the United States who had a reasonable basis for credit.

Now that is the background and picture of this system organized along cooperative lines and one which the Congress felt would be able to meet this challenge of making the services of the credit bank available to the farmers of the country.

Senator HOLLAND. You do not mean directly available?

Mr. TOOTELL. No, but provide the primary lenders that would connect up with this source of money that is obtained through the intermediate credit banks.

These production credit associations have justified the faith that Congress put in them, not only in the retirement of Government capital which we have mentioned before, but in the volume of business which they have built up.

This past year, fiscal year 1955, they provided about 88 percent of the total business of the Federal intermediate credit banks.

Most of the business of the intermediate credit banks that is not done with production credit associations is that done with the OFI's that discount payer or borrow directly from them.

Senator HOLLAND. If I understand you, about 88 percent of the total business done by these institutions is done through cooperative direct lenders, and about 12 percent through the OFI's.

Mr. TOOTELL. It is less actually than 12 percent through the OFI's. Three percent of the business of the intermediate credit banks is with farmer cooperative associations, leaving only 9 percent done with the OFI's.

Senator HOLLAND. Do you have any figures available showing the comparison between the total volume of business done by these organizations and the credit facilities enjoyed by agricultural producers through commercial institutions?

Mr. TOOTELL. Yes, we do have, Senator, and the percentage of the loan funds of farmers that are used for this purpose that come through the production credit associations are only about 8½ percent of the total that are used for production purposes.

Senator HOLLAND. In other words, you mean that 91½ percent of the funds that go to farmers to enable them to produce, farmers and ranchers, come from commercial institutions that do not farm part of the agricultural, Farm Credit Administration?

Mr. TOOTELL. That is right, sir.

Senator HOLLAND. Well, that is interesting.

Mr. TOOTELL. The biggest part of that is with commercial banks; if I remember correctly about 40 percent of the total is from commercial banks. An even higher percentage is from individuals and

then the balance of it is largely mercantile credit of one kind or another.

Senator HOLLAND. You mean fertilizer companies?

Mr. TOOTELL. Machine companies.

Senator HOLLAND. Machine companies, feed companies and the like?

Mr. TOOTELL. That is right.

Senator MUNDT. Are there any clear-cut differences between the types of borrowers who borrow from the commercial banks and the mercantile companies and those who borrow from the Government?

Mr. TOOTELL. We believe not, sir. We believe that the borrowers from the production credit associations, are a very typical group of borrowers. I would say they are a bit different than those who ordinarily borrow from the OFI's, that with few exceptions, the OFI's confine their lending more to the large loans that are quite profitable.

There are a few exceptions to that. A few of the OFI's are more cooperative in nature and make some smaller loans, probably about the same cross-section of loan as to size and profitableness that the production credit associations make.

But the majority of them being privately financed and organized for profit, confine themselves to loans of a size that are profitable.

Senator MUNDT. Let me ask the question this way.

Is there any considerable percentage of the 8.5 percent of the total credit which is provided by the Government system, is there any considerable percentage of that credit which results because the would-be borrower has been turned down by a commercial credit institution for one reason or another?

Mr. TOOTELL. Well, I would say that a certain percentage of it, but what that percentage would be, Senator, I do not know.

Senator MUNDT. Would you have any educated guess you could make?

Mr. TOOTELL. No, I would not have. I would think that the very significant thing related to that is the pace-setting that the production credit associations have done. We believe that is far more significant than the actual volume of dollars they have loaned.

Senator MUNDT. By that you mean it is sort of a yard-stick operation?

Mr. TOOTELL. That is right. An example is the budgeted loan in which, at the beginning of the year, a farmer works out with his lender his financing needs for the year. The lender sets up a line of credit for him and says, "Now you draw on this as you need to and we will charge you interest only as you have this money outstanding; you pay it back just as rapidly as you are able to." This is an innovation that came in with the production credit system about the middle thirties.

Many of the more enlightened commercial banks, particularly those that have hired agricultural representatives, follow the budgeted loan program. That, and in the matter of interest rates and other terms we feel the production credit associations have been pace setters, and have held an umbrella over a lot of farmers through that procedure.

Senator MUNDT. That leads me to my next question, which is: What if any difference is there in the cost to the borrower between the loan

he makes from the commercial institution and the loan he makes from production credit or any other phase of the farm credit system?

Mr. TOTELL. Well, I am going to start with the most favorable on that, Senator Mundt, and take the Federal land bank. The Federal land banks of course have been pace setters in this farm mortgage lending business since shortly after they were organized in 1916 and 1917, and they have loaned their funds just at cost.

An important element in determining their cost has been what they had to pay for the money they hired to loan the farmers. Now I do not know how many years it has been since there has been a change in the land bank interest rate, but I believe it has been 15 years anyway. Nine of the twelve Federal land banks in this country have a 4 percent mortgage rate.

How much longer they are going to be able to hold that 4 percent rate I do not know, because we had to pay 3½ percent on an issue of land bank bonds just recently. I suspect that some of the land banks in the not-too-distant future may have to increase that, if the cost of money continues to go up or even if it stays where it is.

Senator MUNDT. What were they charging back in 1900, say from 1928 to 1938, that 10-year period?

Mr. TOTELL. I would have to look that up, Senator Mundt. At that time the interest rate that they charged borrowers was 1 percent above the cost of the last bond sale. If they had to pay 5 percent on the most recent issue of land bank bonds, they charged 6 percent. And of course money costs were higher back in that period, considerably, than they have been since the early thirties.

Senator MUNDT. During that decade would it be fair to say that the insurance companies in the main pretty well met the same interest rates provided by the land banks?

Mr. TOTELL. Yes, I would say that probably they did. They came close to it anyway. Of course they meet interest rates on a selective and individual basis.

Senator HOLLAND. They skimmed the cream?

Mr. TOTELL. That is right. In order to get a very profitable loan—a good-sized loan and one they know is basically sound—they can quote the owner of that property an interest rate perhaps 1 percent below what they would charge their ordinary borrowers. In our cooperative credit system, we charge every borrower in each association the same interest rate at any particular time.

Now there is some variation between associations, and that brings us next to the production credit associations and their rates of interest.

I would say that over the years the production credit associations have been able to lend money a little cheaper than the farmers ordinarily got it for from their competitors.

Probably the rate of interest was not too significant. The fact they got a type of loan that was tailored to their individual needs, that they established a credit home with an institution they felt would stay with them when the going got tough was more significant.

Senator MUNDT. The point I am trying to develop, if it is a point, is this: That the big virtue of the Federal credit system is not the saving in cost to the borrower, but it is the increase in the area of availability of the funds.

Mr. TOTELL. I would say that is correct.

Senator MUNDT. Would you agree with that?

Mr. TOOTELL. Yes, I would, Senator Mundt. You see, our production credit associations have difficulty in meeting commercial bank competition at a time like this with higher interest rates, because they have to hire the funds that they loan and have to pay the market cost of money.

Commercial banks, fortunately for them, do not have to do the same thing of course. They primarily are lending depositors money on which they do not pay interest.

These intermediate credit banks were each capitalized in the beginning to the extent of \$5 million by the Federal Government. That was the best judgment of Congress at that time as to what the needs might be for capital to support the loan volume it was hoped they would build up.

It has been found, however, in the operation over the years, that the volume of business done by each of these 12 credit banks varies a great deal, and so one of the features of our legislation would be a reallocation of capital. I will comment more in detail on that when we get into the legislation proper.

Senator HOLLAND. A question there: The Government did supply all of the original capital for each of the banks?

Mr. TOOTELL. That is right, sir; for the intermediate credit banks and for the production credit corporations, and it still owns all of the capital of those.

It supplied all of the original capital for the Federal land banks, but just as soon as the first borrower from a Federal land bank or a production credit association got a loan, he subscribed to capital to the extent of 5 percent of his loan, and became a part owner in the system.

Senator MUNDT. Does he get an interest dividend on that 5 percent?

Mr. TOOTELL. About 40 percent of the production credit associations last year paid dividends.

You see, 440 of the 498 have now retired all their Government capital. Of the 58 that still have Government capital, of course none pay dividends.

Senator MUNDT. Is that a negotiable stock? I mean a farmer buys that and quits farming or sells his farm, is that something he can sell?

Mr. TOOTELL. The B stock, which is the voting stock in the production credit association, may not be outstanding more than 2 years unless the man is borrowing.

Now he may subscribe to A stock or investment stock in the association, and that is the same class of stock that the Federal Government has subscribed to in the association.

Senator MUNDT. I am talking about the kind of stock he is compelled to take when he gets his loan.

Is that B stock?

Mr. TOOTELL. Yes, that is B stock and it is not negotiable.

Senator MUNDT. So he takes that and perhaps dies or moves away or quits farming, does it have some value he can sell to somebody or sell to a bank or cash something?

Mr. TOOTELL. He buys at par and turns it in at par on the liquidation of his loan. He or his estate does that.

If someone, for instance, a son, succeeds him, the son would use that same B stock. I don't know just how that is transferred.

Senator MUNDT. You said he could hold that only for two years?

Mr. TOOTELL. Is that not right, Mr. Miles?

Mr. MILES. Yes. The B stock is the stock that he is required to purchase when he gets the loan. And if he does not have a loan for a period of 2 years, that B stock is automatically converted into A stock.

A stock is nonvoting stock but is preferred in case of liquidation.

Senator MUNDT. You mean he can hold it 2 years longer than the termination date of his loan?

Mr. MILES. Yes.

Senator MUNDT. Because his loans frequently are more than 2 years?

Mr. TOOTELL. Mr. Miles?

Mr. MILES. The loans are normally made a year at a time.

Senator MUNDT. On all the farm credit system?

Mr. MILES. As far as the production credit association is concerned.

Senator MUNDT. We were talking about the farm credit banks.

Mr. MILES. I thought you were referring to the B stock held by borrowers of credit associations.

Senator MUNDT. Maybe we got off on another.

Mr. MILES. Yes, production credit associations are the primary lenders.

Senator MUNDT. Those are short-term loans?

Mr. MILES. Short-term loans.

Senator MUNDT. Farm credit bank loan is a long-term loan.

Mr. TOOTELL. The Federal land bank.

Senator MUNDT. Doesn't he have to take the stock in that also?

Mr. TOOTELL. Right.

Senator MUNDT. And that would be like an insurance loan, it would be 5 or 10 years?

Mr. TOOTELL. Ordinarily 20 or longer.

Senator MUNDT. So he has that 5 percent of investment in a farm credit loan?

Mr. TOOTELL. That is right.

Senator MUNDT. For that full period of time, plus 2 more years?

Mr. MILES. Not on the land bank loan, no, sir.

Senator MUNDT. Let's stick on the land bank until we get through with that.

Mr. TOOTELL. O. K. I will take the land bank. When he gets his loan, he subscribes to this, makes his 5 percent stock subscription, \$50. for each thousand, and he continues to have that investment——

Senator MUNDT. So let me inquire there, what he really does is pay, if it is 4 percent, he pays 4 percent for \$5,000, but he actually gets only 95 percent of the \$5,000?

Mr. TOOTELL. That is right.

Senator MUNDT. Because 5 percent of it is tied up?

Mr. TOOTELL. That is right.

Senator MUNDT. So that he pays a net of something over 4 percent interest?

Mr. TOOTELL. Yes, that is right; unless that association pays dividends which make up the difference to him.

Senator MUNDT. And what is your 40 percent figure that you gave me dealing with this bank now or with the other bank?

Mr. TOOTELL. Well, the 40 percent figure I gave you, sir, dealt with the production credit associations.

A much higher percentage than that of the national farm loan associations, which are the agents of the Federal land bank, pay dividends. Because all of the capital of the land bank system for a number of years has been owned by the borrowers, there are comparatively few associations I would say now, that do not pay a dividend, that would offset to the borrower the disadvantage he has in the 5 percent stock investment.

These intermediate credit bank debentures that are sold in the money market are sold through our fiscal agency office in New York City. That fiscal agency is maintained by 36 district institutions. The 12 land banks, the 12 intermediate credit banks and the 12 co-op credit banks assess themselves and maintain the fiscal agency.

The intermediate credit bank debentures are sold each month, and our fiscal agency sells anywhere from perhaps \$70 to, oh, maybe, as high as \$150 million of collateral trust debentures, which are the joint liability of all 12 of the banks.

Senator MUNDT. Who are the purchasers of those in the main, private investors, individual investors or banks and financial institutions, trusts or schools or what?

Mr. TOOTELL. I would say this: that for a considerable period of time they found their way primarily into the hands of individuals. They were bought in the first instance by dealers and by large commercial banks. More and more there has been a swing in the direction of their getting into the hands of institutional leaders. Commercial banks buy a great many of them and make them available to their correspondent banks.

Senator MUNDT. Are they a tax-exempt security?

Mr. TOOTELL. They are not, no, sir.

Senator HOLLAND. What about insurance companies?

Mr. TOOTELL. Well, insurance companies I think ordinarily do not buy intermediate credit bank debentures.

As we get into longer term obligations of the land banks again, I would expect that insurance companies might come back into the picture and invest in them some more.

But I do not believe they are investing much if any in our intermediate credit bank debentures.

Senator MUNDT. Do they usually bear an interest rate higher than a Government bond?

Mr. TOOTELL. Slightly higher, although the relationship is a very favorable one. They are not significantly higher even though they are not guaranteed either as to interest or principal by the Federal Government.

During fiscal year 1955 the credit banks issued \$1,040 million dollars of these debentures.

Now I should like to turn to the production credit system. As I stated before, in each district a production credit corporation was created in 1933, and it had three functions: to organize, to capitalize, and to supervise these local cooperative units known as production credit associations. And you will recall that in order to meet the deficiency that had grown out of the dependence that Congress had placed on the OFI's—the privately capitalized credit corporations—the Congress created a primary lending system. It provided that the entire

United States was to be covered by these local cooperative units so that every farmer who had a reasonable basis for credit would be able to have access to the services of the intermediate credit banks.

The Congress provided a \$120 million revolving fund to subscribe to the capital structure of these production credit corporations and the associations which in turn the corporations capitalized.

The corporations invested \$90 million of that at the peak in the associations, leaving about \$30 million which was the sole source of income for the production credit corporations. They themselves are not lenders. They have a supervisory and service responsibility to the associations.

Their only source of income is their interest on the investments they have made with this Government capital. And to retire this capital is one of the objectives of this act.

Now these production credit associations have built up a strong financial structure in the 23 years they have been in existence.

Each borrower is required to subscribe to 5 percent in stock. Then, in addition to that, farmers and ranchers have subscribed to \$23 million of capital in A stock, which was not a requirement in connection with their loan.

They have done that in order to make a contribution to the financial strength of their local associations, to enable them to become farmer owned earlier, and as a matter of local pride.

I remind you again that all but 58 of the 498 PCA's have entirely paid off their Government capital.

There is remaining \$31,350,000 of Government capital in this production credit system.

As of June 30 last year, there were about 479,000 farmers who were members of the production credit system—owners of either A or B stock or both.

These associations had total capital amounting to \$98 million and surplus and reserves that they had built up amounting to \$97 million.

Then, in addition to that, they had valuation reserves of \$10 million, approximately, reserves set up against specific losses that they anticipated.

Their volume of loans last year was \$1,400 million. That was the volume of loans made by production credit associations to their members.

Unless there are questions on this matter of the credit bank or the corporation itself, Senator Holland, I would like to begin to talk about provisions in the bill.

I thought it desirable to give this background about the system, and particularly these two institutions.

Senator MUNDT. Governor, can you tell us something about this C stock which is authorized but never issued? How does it differ from A and B stock?

Mr. TOOTELL. The C stock would be issued to an association which had already paid off its Government capital in the form of A stock, and, due to an increase, a large increase we will say, in its volume of business, needed extra capital for ratio purposes. Instead of having to solicit additional capital subscriptions from among its members, it could ask for a recapitalization from the revolving fund which the system handles.

And if that subscription were represented by C stock, the association then would go ahead and continue to pay income taxes just the same as if it were completely member owned.

Now if the association had to apply for recapitalization because of a weak financial position, because of adversity, then that subscription would be made in the form of A stock which would reinstate the Federal tax-exemption provision.

No C stock has been issued by production credit associations, although provision was made for it.

Senator MUNDT. Why?

Mr. TOOTELL (continuing). In legislation enacted by this Congress year before last.

Senator MUNDT. Why has none been issued?

Mr. TOOTELL. Why?

Senator MUNDT. Yes?

Mr. TOOTELL. Well, because the situation that I described has not arisen in which there has been a rapid increase in the business that would necessitate their calling for additional capital.

Senator MUNDT. In other words, there have been no requests?

Mr. TOOTELL. There have been no requests for it.

Mr. Miles, does that adequately take care of the question as you see it?

Mr. MILES. Yes. Of course, two-thirds of the present stockholders would have to vote in favor of the issuance of C stock, and no association has taken that action at the present time.

Senator MUNDT. One other question about the nature of the loans of the production credit association. Do you find any limitation which make it difficult for your borrower to get the proper length of loan?

I find a number of demands from out in our area that the intermediate credit, that its term of intermediacy, is too short.

Mr. MILES. Yes.

Senator MUNDT. Will you comment on that a little bit, sir?

Mr. TOOTELL. Yes, I will be glad to, Senator.

The Intermediate Credit Act of 1923 provides that the banks might discount agricultural paper for terms up to 3 years in length. But in practice the primary lenders, whether they be production credit associations or OFI's have largely made loans for 1 year or less in maturity. The reason is—and there is a good deal of justification for it—that the borrower and the lender should sit down not less frequently than once a year, and analyze the situation, decide on the future course of action, and set up a new line of credit for the new year.

And so practically all of the loans that have been made by the credit bank up until a little more than a year ago have been no longer than 1-year maturity.

Now a year ago last winter the Federal Farm Credit Board gave a good deal of consideration to this, and took action urging each of the district production credit corporations and intermediate credit banks to encourage certain of the associations in their districts to try this thing out on a longer basis—up to the 3 years that was authorized by the Credit Act of 1923.

And as a result, some of the districts have really gone into that thing very diligently, and we have a pretty fair number of loans that are made for a longer period of time.

That means ordinarily that a farmer will actually have two loans or two notes, one that will evidence the obligation for capital purposes spread over a longer period than 1 year, and the other one representing his indebtedness for his current year's operating expenses.

Now in this legislation is a proposal to amend the Intermediate Credit Bank Act and permit loans for up to 7 years, the thinking being that in this day and age of modern agriculture, farmers are required to make very heavy capital investments in machinery and equipment.

Examples, of course, are tractors and combines, and these milk tanks that are rapidly coming into the picture and which are expensive.

For soil conserving practices, irrigation systems and things of that kind, they ordinarily do not need the money for a long enough time to justify a regular long-term real estate loan or perhaps they already have real estate mortgages.

But what they do need is something more than 1 year to finance these capital purchases.

Senator MUNDT. Does the legislation contemplate that that would be a loan with a maturity date 7 years hence or a loan with a scheduled system of amortized payments?

Mr. TOOTELL. Of a scheduled system of amortized payments, sir. It is not specific on that in the legislation itself, but I can assure you that is the way it would be administered.

It would be expected there would be, unless the circumstances were unusual, that there would be a liquidation each year of a certain percentage.

Now if the farmer runs into difficulties and is not able to meet that schedule the first year or the second year, why of course it would be renegotiated. But it would be contemplated that it would amortize over a period of not to exceed 7 years.

Senator MUNDT. It seems to me, Governor, that that is a very constructive forward step, because the present length of the production credit loan is too short for a young fellow trying to equip up with expensive machinery of today, and to get a livestock herd started, he just knows he is not going to get it paid in 3 years at the maximum and certainly 1 year does not help him very much.

Mr. TOOTELL. Actually, Senator Mundt, the production credit associations have been extending just that kind of credit ever since the beginning.

And perhaps 20 to 25 percent of their total loans each year involved a matter of extending and refinancing carryover indebtedness of a capital nature.

And there are a great many farmer borrowers who would just as soon have it that way. They don't worry at all about this 1-year note. They have confidence in the directors of their local association and the secretary-treasurer, and they are satisfied with that.

There are others who appear not to sleep well when they have just a 1-year note on a capital item of that kind, and they are the ones of course who urge a longer term obligation.

Senator SCOTT. Mr. Chairman, I have had experience personally on my own farm with the production credit association loans, and it has worked with satisfactory effect in what you have just gone over.

Senator HOLLAND. You mean you have taken advantage of the extensive opportunities from time to time?

Senator SCOTT. Yes, I have. And also in our Hereford dairy up there, it is a cooperative, we work very closely with the bank cooperatives at Columbia, and it has been very satisfactory. I don't know whether you suggested that to us or who did, but we have been told to never pay you up.

I will explain that. The reason for it is we have an individual private audit of our cooperative. They make recommendations. Then we have the State system that makes an audit that costs us nothing and we get their recommendations.

And we were told to never pay you up completely so that you would always make an audit and recommend to us, so we get three free audits, and then in that way we keep in touch.

We do not ever intend to pay you up. You may require it, but we pay down just close enough to keep you coming in to see what you are doing because we want to run right.

Mr. TOOTELL. Senator Scott, that sounds like a good arrangement.

Senator SCOTT. It is working very well with us, and all in all we have been very satisfied with the Federal land bank system.

Mr. TOOTELL. Well, we are very glad to hear that.

Senator SCOTT. In fact, I used to work for you many years ago before you found me out.

Mr. TOOTELL. Is that so?

Senator SCOTT. Yes.

Mr. TOOTELL. Well, I am glad you said years ago.

I have nothing to do with that, and I am sure you were not found out.

This bill, Senator Holland, starts off with a preamble—section 2—which we feel is quite a significant statement of policy.

I will not take time to read it, but simply say that it emphasizes the belief of the Board, and what would be the belief of the Congress, that this system has an obligation to continue to provide agriculture with a dependable type of credit that is really tailored to the needs of farmers.

Senator HOLLAND. That is found in section 2 of the bill?

Mr. TOOTELL. Section 2 of the bill.

And also that the administrators of this legislation would have a continuing responsibility to make the lending functions and services of the intermediate banks available to the OFI's for all time to come on an equitable basis and at rates of interest the same as the rate of interest charged the production credit associations, without discrimination.

The bill provides, as you know, for the merger of the corporation and the credit bank in each district, for the continuation of the necessary supervisory functions now performed by the production credit corporations. It is the belief the board there can be satisfactorily taken care of through the merged institution which would continue to be known as the intermediate credit bank.

The Board, as Mr. Briggs told you, deliberated a long time on this whole matter. It is the belief of the Board that there would be these advantages in the merger and the operation as proposed under the bill.

First, some overall savings in cost. In addition to that, a simplification of the corporate setup through the merger of the two institu-

tions, a substitution of only one set of officers where presently there are two, and an elimination of some of the duplication in credit services to farmers which inevitably come about with the present system.

And I want to go on record right at this point as saying that the Board feels, and we who are officers of the Farm Credit Administration feel, that the production credit corporations have done a fine job. They were in this picture in the beginning to organize, to capitalize, and to supervise production credit associations.

However, it is our considered belief that the time has come when there is no longer justification for a separate corporate institution to take care of the remaining services and supervisory functions of production credit associations. But I do want to pay tribute to the job that the production credit corporations have done in these 22 or 23 years that they have operated.

After merger, the supervision of the associations, of course, would be paid for out of the income of the merged institutions.

SENATOR HOLLAND. As of what date would the merger become effective?

MR. TOOTELL. We would hope, sir, as this bill suggests, that the merger become effective on January 1, 1957. That would give in each district, we believe, ample time to organize and to prepare for it.

Of course in some districts it has been anticipated for at least a couple of years and they have been working in that direction. They have in your district, Senator Scott. You have a common set of officers of your credit bank and your corporation in the Columbia Farm Credit District.

Mr. Robert Darr is president of both of those institutions. He is one of the very fine younger corporation presidents.

SENATOR HOLLAND. In other words there won't have to be a president fired in that particular case?

MR. TOOTELL. Not in that particular case. And, Senator Holland, there may not be in any of the other cases.

It may be that one president will have to become a vice president. There are a few instances in which there are corporation presidents or intermediate credit bank presidents who are to the age or past the age of voluntary retirement. Some of them will take retirement.

We know that each of the district farm credit boards, which primarily has jurisdiction over this matter of who the employees will be under the new institution, are going to have a very humane attitude toward it. Actually the number of employees involved is not great. There are an average of only about 13 or 14 employees in each district production credit corporation and about 20 employees of each intermediate credit bank.

So there is no great number of people involved in each district.

SENATOR HOLLAND. What would be your estimate of the size of the staff of the merged institution?

MR. TOOTELL. We feel, Senator, that this will vary somewhat by districts, depending upon the extent to which they may anticipate this—the extent to which the local board and officers have undertaken to streamline their operations.

Just offhand, I would think that in a district where presently there are say 34 employees between the 2, probably the number of employees would be reduced to 24 over a period of 2 or 3 years.

That is just an offhand guess, but I think that would be pretty close to a typical situation.

Senator HOLLAND. And there will be effected the economy that would be represented by that reduced number of employees as well as by doing away with the necessity for having two set of executive officials?

Mr. TOOTELL. That is right.

Now the Federal Board authorized our office last fall to employ the Arthur Anderson Co., of Chicago, to make a study of the possibilities for streamlining and effecting savings in the operating costs of the intermediate credit banks and the corporations. That firm made a study in the Columbia and the Omaha Farm Credit districts. Then, from these 2, it generalized and projected and made estimates of what they thought might be a reasonable expectation of saving for the 12 districts.

They came up with a figure of eventual saving slightly in excess of a million dollars. That is, in institutions whose present budgets are, oh, about \$3 million; is that right, Mr. Miles?

Mr. MILES. It would be nearer \$4 million—between \$3½ million and \$4 million.

Senator SCHOEPPFEL. Over what period of time?

Mr. TOOTELL. They did not say specifically. In talking with them, they recognized that it might be 2 or 3 years before most of these changes would be instituted, and they also recognized that there might be some districts in which the board of directors might not choose to go the full way on it.

Now our belief is that this is rather optimistic, that the saving would be something less than that.

We would think, however, something in excess of \$600,000 within 2 years, and that the saving would be greater than that over a longer period of time.

In other words, it would be a consequential saving.

It would be, we believe, after a couple of years, something like a 25-percent saving in the budget of the 2.

Senator MUNDT. Your figure of reducing it from 25 to 16 would be more optimistic than the Chicago figure.

That is more than either 25 or 33⅓ percent.

Senator HOLLAND. Maybe that is accounted for by the fact that the reductions would come in the lower echelons of employment, except as to doing away with the president.

Mr. TOOTELL. You see, I did not check my signals on that, Senator Mundt, but I think that Senator Holland has come up with the answer on this thing. You would be cutting off half of your top echelon and you would be cutting off then, I think, pretty heavily from the lower, but there would probably be very little if any change—

Senator MUNDT. At least it would indicate you could look forward with reasonable optimism to at least a 25-percent saving?

Mr. TOOTELL. I would say after a period of 2 years.

And you see, the boards I think would operate in a manner to try to make this reduction as nearly as they could from normal attrition.

Senator HOLLAND. You mean retirements and deaths, and transfers?

Mr. TOOTELL. That is right; and transfers—and, of course, that is easier in the lower echelons.

In your clerical help and folks in the lower echelons you have considerable turnover there anyway.

Senator HOLLAND. Presidents never die?

Mr. TOOTELL. They just retire.

Senator MUNDT. Like old soldiers, they fade away.

Mr. TOOTELL. I would like to emphasize again that the matter of who the employees will be, what proportion of them come from the present intermediate credit bank organization and what proportion from the present production credit corporation, is a matter for discretion of the district farm credit boards, and I have already explained how they are organized. It is true that as to the Senior officers of district institutions, the Farm Credit Administration has a veto power. They are employed subject to our approval. I do not know how many years it has been since the governor's office has vetoed any of the district boards employment plans for officers. Certainly not in the 2 years I have been in the office. I do not contemplate that there would be exercise of such veto power except in most unusual cases.

Senator HOLLAND. Well, you have already stated that 88 percent of the loans under this merger would be made to the same group of people?

Mr. TOOTELL. Yes.

Senator HOLLAND. That is the lending institution and the borrowing institution?

Mr. TOOTELL. That is right.

Senator HOLLAND. So all of the economy that could be effected would be completely justifiable because the same people who were making the loans would be receiving 88 percent of the loans, is that right?

Mr. TOOTELL. Yes, that is true.

While we are talking on this matter of economizing and streamlining, I would like to further illustrate our good faith in this by telling you a little of what we have accomplished in our own Farm Credit Administration organization here in the little more than 2 years since the Act of 1953 became effective and we have had the Farm Credit Board.

The personnel strength back in December 1953 was 322 employees. That has been reduced to 245 as of this date, and it involves not just a cutting out of positions in the lower echelons, but a very typical cross-section, because we have discontinued 2 deputy governor positions—2 out of 6 deputy governor positions.

We have absorbed the mandatory salary increases that came about through the salary increases decreed by the Congress a year ago last summer, I believe it was, the increase in travel allowance and these other costs, and then the step increases that come through longevity.

We have been able to absorb all of those increases and to reduce our requests by \$90,000.

Senator HOLLAND. You mean your operating budget?

Mr. TOOTELL. Our operating budget.

Senator HOLLAND. What is the present size of it and what was the size of it in 1953?

Mr. TOOTELL. The present size of it is \$2,230,000, sir, so that would mean it was \$2,320,000. We reduced it from \$2,320,000.

Senator MUNDT. You mentioned the Farm Credit Board. That is the board of Mr. Sam Bober out in Newell, S. Dak.?

Mr. TOOTELL. That is right.

Senator MUNDT. At that point in the record I would like to incorporate a letter I received this morning from Mr. Sam H. Bober, of Newell, S. Dak., heartily endorsing the Holland bills.

I think I will have no difficulty getting this in the record. He gives some very valid and persuasive reasons why he supports it.

Senator HOLLAND. Thank you for introducing the letter at this time. Without objection, it will be printed in the record at this point. (The document is as follows:)

NEWELL, S. DAK., April 20, 1956.

Hon. KARL E. MUNDT,
United States Senate,
Washington, D. C.

DEAR KARL: Our farmer borrowers of Production Credit will appreciate very much your active support of S. 3564 introduced by Senator Holland, which should come before your Agriculture Committee one of these days.

This bill deals with the problem of merging Production Credit Corporations in the Federal Intermediate Credit Banks; provides means for retirement of Government capital and for farmer ownership of these banks. This is the big step, the vast majority of our farmer borrowers wanted, in the direction of farmer ownership of the farmer's own Farm Credit System.

The Federal Farm Credit Board has spent much time to develop this legislation. It has been developed in close cooperation with Production Credit Associations in every Farm Credit District throughout the country. All interested parties had full opportunity to participate in discussing every feature and in suggesting every item in this proposed legislation, before and after the final draft of this bill. We also had the advice of the National PCA Advisory Committee and of the members of District Farm Credit Boards.

Karl, I want to assure you that this piece of legislation is for the best interest of the folks connected with land, as well as for the Government that helped us get this good Farm Credit System going. We have grown, up, we have the experience and should be encouraged to full ownership and control of our own system. The enactment of this bill into law will permit more efficiency and economy in short-term credit lending. From past experience and our personal knowledge, we know that you will give us your full support on good legislation such as this.

With kind personal regards, I remain
Sincerely yours,

SAM H. BOBER.

Mr. TOOTELL. Mr. Chairman, on merger of these two institutions we would have about this situation: The day before the merger took place, we would have 12 intermediate credit banks that would have a consolidated net worth statement of approximately \$110 million. That would be on December 31, 1956, we hope.

On January 1, 1957, the new credit banks would have a net worth of \$149,186,000, in other words just a little more than \$39 million increase in the capital structure of the intermediate credit banks, so definitely this would make for a stronger financial institution.

No only would the capital of the production credit corporations be transferred to the new institution, but also its surplus estimated at a little under \$13 million.

Senator HOLLAND. How much?

Mr. TOOTELL. A little under \$13 million of surplus in the production credit corporations. And the surplus in the intermediate credit banks themselves amounting to just under \$50 million.

That is our best estimate of what it will be as of December next.

Senator HOLLAND. Those figures are based upon your hope that S. 3564 will be enacted rather than S. 3550, is that right?

Mr. TOOTELL. That is correct. Well, in either event, sir, they would be the same. The difference between those two would be this, and I might just as well cover it at this point.

It is one of the three exceptions which the Bureau of the Budget took to the Federal Board's proposal. The Bureau would not prevent the surplus from the corporations and the credit bank from becoming part of the permanent capital structure of this new institution. Its proposal would take effect only in case of liquidation of the credit banks at some future time. If the credit banks should be liquidated at any time before all of the Government capital is entirely retired, you would have provision in the present law for the disposition of the surplus, if there were any remaining, because it would be prorated to the interests of the A and B stockholders. But if the credit banks were to be liquidated after all the Government capital were retired, the Budget Bureau would want to see the Government continue to have some interest in the surplus.

Senator HOLLAND. What interest under the requests of the Bureau of the Budget as represented in S. 3550?

Mr. TOOTELL. It did not specify except that it would have an interest in the surplus which was built up prior to the effective date of this legislation.

Senator HOLLAND. What interest?

Senator MUNDT. The surplus?

Mr. TOOTELL. It would be all of it.

Senator MUNDT. They would want the surplus returned.

Senator HOLLAND. And what does that amount to at present?

Mr. TOOTELL. Just a little under \$50 million. It is \$50 million of the surplus in the credit bank plus a little more than \$13 million in the production credit corporation.

Senator HOLLAND. Then the difference between the suggestion of the Bureau of the Budget and the suggestion of the directors of the Farm Credit Administration is this: that approximately \$63 million of surplus now belonging to the two institutions would under the recommendations of the Bureau of the Budget, belong ultimately to the Government, and that would be true even after the complete liquidation of the Government-owned stocks, whereas under the recommendations of the directors of the Farm Credit Administration, that \$63 million would, after the complete retirement of the Government-owned stocks, belong to and become the property of the new institution and its stockholders?

Mr. TOOTELL. That is right, sir.

Senator HOLLAND. And the stockholders would, upon retirement of the Government-owned stocks, be exclusively the users of the institution?

Mr. TOOTELL. And of course that is what they are desiring to accomplish, to become exclusively the owners of the system.

Senator HOLLAND. In other words, at present the users of the system are certain institutions who ultimately are farmers?

Mr. TOOTELL. That is right.

Senator HOLLAND. And one group of users own \$50 million surplus and another group \$13 million surplus, if the recommendations of the directors as embodied in 3,564 are enacted?

Mr. TOOTELL. That is right, sir; all surplus would be farmer owned.

Senator HOLLAND. They become the exclusive owners only upon the retirement of the Government-owned stock?

Mr. TOOTELL. That is right.

Senator MUNDT. But it actually makes a difference only in case the bank is dissolved?

Mr. TOOTELL. That is right.

Senator MUNDT. The situation runs along parallel under either of the bills with or without the recommendations of the Budget Bureau so long as the institution functions?

Mr. TOOTELL. That is right.

Senator MUNDT. The question arises if the bank is dissolved, Does the Government get back its money or does the surplus turn out to the farmers as dividends?

Mr. TOOTELL. That is right; and of course we think the question is academic.

Senator MUNDT. You do not intend to dissolve the bank?

Mr. TOOTELL. We are not planning the liquidation of the intermediate credit banks and we don't believe that they will be at any time in the foreseeable future.

Secondly, if they should be, they are going to be broke and there would be no surplus.

And, thirdly, the Congress would have to make specific provision for their liquidation because present law does not do so.

Senator HOLLAND. Well, isn't there this additional difference between the two points of view—that the question of dividends in the meantime would be affected?

Mr. TOOTELL. Senator Holland, as to the surplus which has been built up to date, as the effective date of the act, the Board's draft makes it very specific that none of this surplus could be paid out; and no dividends may be paid out of earnings so long as there is any Government capital in the system. That is sewed up tight and in a manner satisfactory to the Bureau of the Budget.

Senator HOLLAND. After the Government capital is retired then what?

Mr. TOOTELL. After the Government capital is retired the credit banks could, and we feel would, pay dividends either in cash or in additional B stock and participation certificates.

Senator HOLLAND. Would there be any control of their policy looking to payment of dividends from the Farm Credit Administration?

Mr. TOOTELL. By law, yes.

Senator HOLLAND. That is included in this present legislation that you have suggested?

Mr. TOOTELL. I believe I am right on that, but that is one of the things which would be delegated to the district institution and its board of directors, and the authority of the Farm Credit Administration would not be invoked unless it was felt that there was serious mismanagement. Is that correct, Mr. Bagwell?

Mr. BAGWELL. Under this bill, Senator Holland, the surplus that we have been speaking of, the \$62 or \$63 million, could never be paid out as dividends either before retirement of Government stock or after.

It is always there. It can be used to meet losses, but earnings of the banks would have to be used to restore the fund if it should be depleted by losses.

After the retirement of all Government-owned stock, dividends could be paid as determined by the bank, but there is a limit in the bill of 5 percent.

Dividends never could be in excess of 5 percent out of current earnings, but they could not be paid in any amount out of this surplus.

Senator HOLLAND. Then the savings to the then users of the bank, after the retirement of Government stock was accomplished, would be reflected in reduced annual charges?

Mr. BAGWELL. That is right.

Senator HOLLAND. Rather than in payment out of the surplus?

Mr. TOOTELL. They would be permitted, however, to pay patronage refunds to their users annually.

Mr. BAGWELL. That is right.

Mr. TOOTELL. To PCA's in the form of B stock and to OFI's in the form of participation certificates.

Senator HOLLAND. We might as well bring this clearly into the record now because of course the Bureau of the Budget will have a witness in here to disclose their side of this recommendation which they have made.

Just what is it that the Bureau of the Budget finds offensive in the possibilities that would exist after the retirement of the Government-owned stock in the new merged institution?

Just what is it that they find offensive in the operation after that time, after the retirement of the Government stock?

Mr. BAGWELL. Apparently, Senator Holland, they feel that the surplus should go back to the Treasury, primarily I assume, for the reason that it was built up at a time when these corporations were wholly Government owned.

Senator HOLLAND. That is only in the event of liquidation, though?

Mr. BAGWELL. That is right.

Senator HOLLAND. What is the situation with reference to the possibilities of operation after the retirement of Government stock that they find objectionable under the act requested by the Farm Credit Administration?

Mr. BAGWELL. They apparently feel that is it unsound or wrong for the farmers to be declared the owners of this surplus after all Government capital is retired. We think it is an academic question, as the Governor said, because we do not visualize the credit banks ever being liquidated.

It is important only in this respect: The Farm Credit Act of 1953 envisioned farmers becoming the owners of the system, and how could they be the owners of the banks if the Government owns 100 percent of the surplus?

They could not in any real sense be the owners of the banks. But it is academic as far as the surplus being paid out in the form of liquidating dividends, because we do not envision the liquidation of the bank.

Senator HOLLAND. Well, now how does it affect from the standpoint of the Budget Bureau the possibilities of greater or less annual dividends?

Mr. BAGWELL. It does not affect the annual dividends at all, because no dividends can be paid until all Government capital is retired, and as I have just indicated, this bill makes it perfectly clear that the surplus can never be used to pay dividends, so really this matter of

who owns the surplus will never affect the size or the amount of dividends.

Senator HOLLAND. Of course the question of additions to the dividends would be immediately affected by permitting of greater dividends annually to go back to the users of the corporation, of users of the lending facilities in any particular year.

Has that point been raised by the Bureau of the Budget?

Mr. BAGWELL. I do not recall that their letter covers that point.

Mr. TOOTELL. No.

Senator MUNDT. Let me ask you, Governor, since everybody seems to agree this is purely an academic question, are you therefore resisting the recommendations of the Bureau of the Budget or are you approving them?

Mr. TOOTELL. Well, our chairman stated that we do not like to appear to be in the position of opposing the position of the Bureau of the Budget on this, but the Board is not in agreement with that.

Senator HOLLAND. Well, this is the same point, is it not, that has already been decided in favor of the users of the institutions in the case of the land bank and in the case of the banks of cooperatives?

Mr. TOOTELL. And in the case of the production credit associations. The question was never even raised in connection with them.

Senator HOLLAND. That is right.

Mr. TOOTELL. The same objection was raised by the Bureau of the Budget last year in connection with the co-op bank legislation and Congress resolved it as the Federal Board had recommended.

The Bureau of the Budget people took this view this year and we expressed amazement that the question came up again. They said well, we are dealing with a different breed of cats this time. We are dealing this time with two corporations that are wholly Government-owned and have been since the beginning, where, with banks for co-ops we did not have that.

You had a mixed ownership corporation from the beginning. But it seems to us that the difference is more apparent than real. That in the beginning the Government put up all the capital for the banks for co-ops.

True, when the first loan was made, an infinitesimal part of the capital became owned by a user, but we fail to see that that is a significant point.

And you might ask, since we contend that this question of dissolution of the credit banks is academic, why does the Board continue to feel as it does about this?

The reason is that so long as there is an acknowledgment of a continuing Government interest after the retirement of all of the Government capital, then our production credit associations feel they would not in fact have acquired complete user ownership as they have wanted to do and as was envisioned in the act of 1953.

Senator HOLLAND. As a matter of fact, the total amount of the surplus has been created by the imposition of interest charges greater than were required to simply carry the operation in any particular year, isn't that correct?

Mr. TOOTELL. That is certainly our position on this, Senator Holland.

We do not just wave aside the fact that the credit banks had interest-free use of this capital over the years. That was a factor in building

up the surplus. But we do point out just as you have, that the credit banks were operated in a manner which would build up their own capital structure and add to these reserves.

The alternative to that would have been to have charged a lower discount rate that would just pay their operating costs, and to have drawn upon the revolving fund, for which provision has been made since 1934, for the additional capital that was needed to support their loan volume.

At the present time only \$2½ million of the \$40 million of authorized capital in the revolving fund has been drawn out and invested in any of the credit banks. There are three of them that presently are using this small amount of that capital. It has been a good many years since a significant amount of that revolving fund has been invested in the credit banks. An alternative would have been to have all of that \$40 million in the credit banks down through this period to support their loan volume, and to reduce the discount rate charged so that the PCA's could charge lower interest rates to farmers.

There is not any question but that the farmers who are members of this system, through the PCA's and through the OFI's, have contributed to that surplus.

Senator HOLLAND. That is the only point that bothers me. To what extent have the OFI's contributed to the building up of the surplus?

Mr. TOOTELL. Well, as near as we can determine, sir; to something like 20 percent of it.

Senator HOLLAND. You see that factor comes into this picture which was not found in the Federal land banks.

Mr. TOOTELL. That is right.

Senator HOLLAND. And was not found in the intermediate credit banks.

Mr. TOOTELL. The banks for co-ops.

Senator HOLLAND. I mean the banks for co-ops. And that one factor differentiates this operation from the operations of the land banks and the banks for co-ops.

Mr. TOOTELL. Yes; it does. Well now I would like, in attempting to answer this, to go back and tie in with the bit of history that I built up on the first 10 years of operation of the intermediate credit banks. I wish to reiterate that their operation was in many ways a failure for the first 10 years, because they failed to reach more than just a small handful of the farmers who needed that kind of financing.

Since 1933 this production credit system, this cooperative production credit system that Congress provided, is the one that made it possible for the OFI's to continue to have a place where they could discount their paper to advantage.

Had it not been for the great volume of business which the PCA's built up and contributed to the credit banks, there either would have been no credit banks or their overhead would have been such that the OFI's would have had to pay a lot more money to rediscount their paper.

And we feel that in a large sense the PCA's have been holding the umbrella over the OFI's since 1933, and that in this legislation, by continuing to make every service that the OFI's have had from the credit banks available to them for the future, plus some more that I would mention later on when I get to this particular part of it, that their interests are being very amply taken care of.

Senator MUNDT. To switch from the field of the academic to the field of the actual, isn't it true that the only way that the Government would ever get any money into its Treasury from the first amendment recommended by the Bureau of the Budget, would be not only when the bank was dissolved, but it would have to be dissolved in an era of plenty and solvency.

If it was dissolved in an era of insolvency, it would not get any money anyhow. There would not be any surplus.

Mr. TOOTELL. That is right.

Senator MUNDT. And it is very unlikely that in an era of plenty and surplus when it is operating satisfactorily, that it is ever going to be dissolved, because there is always going to be a need for this kind of credit?

Mr. TOOTELL. That is definitely our belief.

Senator MUNDT. I wish you would comment a little bit on the second criticism, before we have to adjourn. That to me has more appeal, and that is that you should be subject to the audit of the Government as long as the Government has funds invested in the operation.

Mr. TOOTELL. Well, you are speaking now of objection No. 2.

Senator MUNDT. That is right.

Mr. TOOTELL. Which the Bureau of the Budget took on this legislation?

Senator MUNDT. That is right.

Mr. TOOTELL. Yes. The Federal land bank, so long as it was a mixed ownership institution and had Government capital invested in it, and the banks for co-ops which had been mixed ownership institutions for a good many years, were subject to the audit provisions of the Corporation Control Act.

The Federal land banks after retiring the last of their Government capital, became exempt even from the audit provisions of the Government Corporation Control Act. The co-op banks which are mixed ownership institutions are still under the audit provisions. They are, however, exempt from the budget provisions of the Corporation Control Act.

Now, the intermediate credit banks and the production credit corporations, being wholly Government-owned institutions, have been subject to both the audit and budget provisions of the Corporation Control Act.

Under the Board's view, as soon as the production credit associations make their initial investment in the credit banks—and I was just at that point in my testimony here as to how they would do it—then immediately the credit banks would become mixed ownership institutions and they would no longer be subject to the budget provisions of the Corporation Control Act. They would, however, continue to be subject to the audit provisions so long as there was any Government capital involved.

Now the position of the Bureau of the Budget is that until the last dollar of Government capital is retired the credit banks should be subject to the budget provisions as well as the audit provisions of the Corporation Control Act. Each year the district boards of directors and the officers of the credit banks would draw up budgets and submit them to our office. We would combine the budgets of all 12 districts and perhaps suggest changes here and there but probably not.

Then, as now, we would have to go over to the Bureau of the Budget and get their approval, and then we would have to go before appropriations subcommittees of both Houses of Congress in order to get their permission for the administrative budget for this new institution.

It is the belief of our Board that this should not have to apply to a mixed-ownership institution; that the act should be specifically amended to exempt the credit banks from the budget provisions of the Corporation Control Act. We believe that is in keeping with the spirit of the act of 1953 in this matter of more control along with greater farmer ownership of these institutions.

You see, no Federal appropriation is involved. It is simply an authorization for these institutions to use their own funds for administrative purposes. That is what is involved in their so-called budgets. And I would like to get into the record a further statement concerning the budget of the Washington office, our supervisory agency here. A while ago I stated that its budget is \$2,230,000. This is not money which Congress appropriates from tax funds. It is simply an authorization the Congress gives us to spend money which we assess against the district institutions to pay our cost of operation.

I believe not since the early forties, has the Farm Credit Administration gotten an appropriation of tax moneys from the Congress, except for the co-op research and service division that remained in Agriculture in 1953 when Farm Credit became an independent agency again.

Senator MUNDT. What is the total amount of obligation that this bank has to the Government which is ultimately to be repaid?

Mr. TOOTELL. About \$86 million would be the total of the capital from both the credit bank and the corporation.

Senator MUNDT. And about how long a time in years do you expect before that is repaid?

Mr. TOOTELL. That will vary, Senator, as between the several districts. We believe that under reasonably satisfactory conditions in agriculture, there are perhaps 2 or 3 districts that might pay out in as short a time as 10 years.

We believe that 20 years would be rather typical, and we believe that there are 2 or 3 districts in which the volume of business is rather low that it could take closer to 40 years.

Senator MUNDT. Under the assumption that this operation should fall into the hands of bad management 5 years or 10 years hence, if we waived this second objection that the Bureau of the Budget makes, what recourse or what authority would Congress have to correct a bad situation?

Mr. TOOTELL. Well, Senator Mundt, we believe that we have defense in depth against such a situation.

In the first place, the immediate responsibility on that rests with the officers of this merged intermediate credit bank in each district. They are the employees of the district board, and I have explained the makeup of that board. We would expect that the officers and the district board would be watching pretty closely what was happening.

Then all of these district institutions, whether they have Government capital in them or not, are subject to at least an annual examination, by our office as the supervising agency. As a matter of fact, about a third of our total personnel are examiners, and they are constantly examining these various units and auditing them.

Furthermore the members of the Federal Farm Credit Board are in touch with the situation in their respective districts. They appraise the management job currently, and if anything was very flagrant, it would probably come to their attention.

Through our supervisory and examination functions, men like Mr. Miles here, who heads up the short-term credit service and who is in addition a deputy governor, would be conferring perhaps two or three times a year with the officers of these district credit banks. Others from his staff also would be in contact with them. Under these circumstances we just do not believe that bad management can go on undetected. As evidence we would cite the history of the farm credit institutions. There has been no scandal in farm credit in the 40 years of its existence—since land banks were first created.

We think in large part that the effective examination program and effective supervision, we hope without dictation, largely accounts for that record.

Senator MUNDT. Let me ask you in the unhappy event that your examiners in your Washington office discovered a bid fiscal practice, do you have all the authority to correct it that would now exist under the procedure whereby the Bureau of the Budget and Congress are both in the picture?

Mr. TOOTELL. Yes, we feel we do.

Senator MUNDT. You think you do?

Do you want, while we are on this matter of objections of the Bureau of the Budget, to cover the third point?

Senator HOLLAND. I think that might be well.

Mr. TOOTELL. That has to do with the matter of revolving funds. At the present time the revolving fund in the production credit system is \$90 million. Last year at the time the Federal Board was preparing short-term legislation for the Congress, we counseled with the officers of production credit corporations in the districts and with the district boards and the conclusion was reached that a \$60 million revolving fund would be adequate.

We were asked by the Bureau of the Budget at that time to state what we felt was a reasonable figure, and we agreed with them on the \$60 million.

That would make possible a \$30 million decrease from the present production credit revolving fund.

Now, in the intermediate credit bank system there has been since 1934 a revolving fund of \$40 million. The capital stock, you will recall, is \$60 million. The Board's proposal is that as the \$60 million of Government capital is retired all of it go into this revolving fund account rather than into the general funds of the Treasury, making for the intermediate credit banks eventually a \$100 million revolving fund, and reducing the production credit revolving fund to \$60 million.

Now, item No. 3 or exception No. 3 that the Bureau of the Budget made was this: They felt that the revolving funds of the new merged institution should not exceed the present revolving funds. The present revolving funds are \$90 million for production credit and \$40 million for intermediate credit, or \$130 million.

So they ask that the combined revolving funds be limited to \$130 million, and said they did not care how those might be allocated as between the two institutions, whether it be \$60 million available for

production credit associations and \$70 million to the credit banks, or some other way. They even said if we wanted to propose legislation which would consolidate the 2 revolving funds and give them a total of \$130 million, that would be all right.

The Board has taken the position that all of the \$160 million is presently in the System, so it was not asking for a revolving fund that would exceed in total the amount of Government capital presently in the System or involved in present revolving funds.

Of course, a revolving fund, even though it is a contingent liability of the Government of the United States, does not sterilize that much money. It simply is an earmarked credit or a demand deposit, if you will.

Of course, the Bureau of the Budget understandably is undertaking to reduce contingent liabilities as well as actual outstanding obligations.

Senator MUNDT. What would happen to that other \$30 million under the Bureau's recommendation?

Would that go into the general Treasury of the United States?

Mr. TOOTELL. Yes; it would. Under the present wording of Senate bill 3550 the first money retired—the first of the present credit bank capital that would be retired—would go into the Treasury.

Is that not right? Yes; and it all goes there and stays there, plus another \$30 million revolving fund that would be canceled.

I am talking about the \$60 million credit bank capital.

The Budget Bureau's proposal would be that the first \$30 million of that go to the Treasury and the last \$30 million to the revolving fund.

Mr. BAGWELL. That is right.

Mr. TOOTELL. So it would be a good many years hence before there would be an opportunity to increase the credit bank revolving fund above its present \$40 million. The Board has taken the position that it cannot foresee what the demands are going to be upon the credit banks, and it was not asking for an amount that was beyond funds already obligated in the farm credit system.

Those are the three exceptions which the Bureau of the Budget took to the Board's proposal.

Senator HOLLAND. Well, I can see a real case for insisting that the reserves and surpluses shall belong to those who have used the facilities, but I do not see that strong a case as to this fund that you have been talking about, the revolving fund that has always belonged to the Federal Government.

Mr. TOOTELL. And would continue to, sir. All the Board is proposing is that this demand deposit which the Farm Credit Administration could call upon in case of need in the credit banks or the production credit associations would remain so, and the Budget Bureau has no objection at all to there being these 2 revolving funds, but simply believes that the ceiling on them should be \$130 million instead of \$160 million as proposed by the Board.

Senator HOLLAND. And it should always be regarded as Federal money?

Mr. TOOTELL. Oh, yes, it would be; that is right.

Now let me just say a further word about these revolving funds.

This \$60 million which under the Board's program would be available to the production credit associations would be used to recapitalize associations that found themselves in 1 of 2 situations. One, a rapid increase in their volume of business, and a need for more capital for ratio purposes; second, a tight financial condition which might come about through prolonged drought or prolonged economic emergency that would weaken their financial structure.

And we have had each of those 2 situations with 3 associations in the last 2 years. Three associations in the State of Maine, due to low potato prices the year before last, asked to have a resubscription of capital. Those were associations that had paid off all of their Government capital, and we did resubscribe to some capital in them.

Then there were 3 production credit associations in the State of Texas that were in tough straits primarily as a result of prolonged drought that 2 years ago had capital added to them.

Senator MUNDT. What rate of interest does the bank pay on that \$130 million?

Mr. TOOTELL. Not a thing.

Senator MUNDT. No interest?

Mr. TOOTELL. No, sir.

Senator MUNDT. That is just a contribution by the Federal Government?

Mr. TOOTELL. That is right. You see, we would hope that after the Government capital was retired from the system there would not ever have to be a dollar of that \$130 million brought back in and used.

It would only be in the case of adversity or in case of a rapid buildup of business on the part of an association or of a credit bank that there would be need to draw on that revolving fund.

Senator MUNDT. Would it be good economics, would it be feasible, to make those advancements such as to the potato raisers of Maine and the cattlemen of Texas out of your surplus?

Senator HOLLAND. It is the opposite of surplus. It is additional investment by the Government; not surplus that has been earned by the operation, but it is an addition to the capital structure.

Senator MUNDT. I was raising the question whether they could make those advancements to the local groups out of the surplus they have accumulated rather than drawing on the demand account of the Government.

Senator HOLLAND. I notice it is 12:30 now. How much longer do you think it will take you to complete?

Mr. TOOTELL. That will depend on the number of questions, Senator Holland. I would try very hard to finish in 30 to 40 minutes.

Senator HOLLAND. What I suggest is now that we recess, if it is agreeable to you, Senator Mundt, until 2 o'clock. That will give us a chance to go to the floor, and also have our lunch.

Will that be all right?

Senator MUNDT. I would like an answer to the pending question.

Senator HOLLAND. Oh, surely; go ahead.

Mr. TOOTELL. Well, you asked about the feasibility of using the surplus of this merged institution, the intermediate credit bank, to subscribe to the capital of PCA's that might be in need of additional capital.

Senator HOLLAND. Under the circumstances you listed, those two examples?

Mr. TOOTELL. Well, if that were done, of course, the law would have to be changed to permit it. It might very conceivably reduce the capital structure of the intermediate credit banks to a point where they could not adequately margin their loans, and it might impair their ability to lend to other associations.

It would have, in addition, this effect: It would reduce their earning power because they have this surplus presently invested, probably in Government bonds, and it would mean that they would have to increase the discount rate that they charged all their borrowers in order to have those surplus funds to invest in a few selected associations. And so, I would think, Senator Mundt, that would not be a feasible method.

Now, related to this and the cost of money you asked about.

The production credit associations which have had anywhere from \$90 million down to the present \$2.2 million of Government capital invested in them have never made a return on that money to the Government.

The intermediate credit banks, which have had \$60 million of Government capital and at times in the past some substantial amounts of paid-in surplus, have, however, paid a franchise tax, and the sum total of the franchise tax over the years has been somewhere between \$9 million and \$10 million. That amount the intermediate credit banks have returned to the Treasury and it can be construed as a return on the Government money invested in them.

And, by the way, the franchise tax would continue under our proposed legislation.

Senator HOLLAND. So long as there was Federal investment there?

Mr. TOOTELL. That is right.

Senator MUNDT. I was just trying to determine whether you envisioned a time when this operation became strictly a farmer-owned and farmer-operated function divorced from drawing accounts on the Government and interest-free money, or whether it was just a farmer-owned and farmer-operated institution which still relies upon interest-free money and Government support, because it seems to me that has a bearing on whether or not there should be Government audits and Budget Bureau operations and congressional review.

Certainly if it is strictly a farmer-owned and farmer-operated project the Government has no responsibility and need exercise no authority or supervision of any kind because it has no responsibility.

Mr. TOOTELL. Senator Mundt, I will cite the experience with the Federal land banks. The Federal land banks had a sizable revolving fund, and certainly in the 1930's had to call upon that to a great degree to permit them to go ahead and do the job of refinancing they did in that period of farm distress.

After the Federal land banks got all the Government capital paid out, and in the meantime built up substantial reserves and surpluses, some years ago they requested legislation which would take away their revolving fund, and there is none any more.

We would hope that the time would come, you see, when this merged institution might be in such financial condition that it also could ask for legislation which would remove the revolving fund.

Of course these institutions will continue to be federally chartered institutions even after the Government capital is paid out.

And as has been construed today, they always will be somewhat vested with a public interest and will be subject to certain supervision by the Farm Credit Administration, which is the agency Congress has provided for doing that.

Senator HOLLAND. We will stand in recess until 2 o'clock.

(Whereupon, at 12:35 p. m., the committee was recessed, to reconvene at 2 p. m. of the same day.)

AFTERNOON SESSION

Senator HOLLAND. The subcommittee will come to order.

Governor Tootell, you will resume your testimony, please.

Mr. TOOTELL. I would like to request, if you would be willing, that Mr. Abner Larson be given a spot at this time. He has a plane to make and I believe he has to leave here at 2:30 to make his plane connection.

Senator HOLLAND. All right, Mr. Larson.

STATEMENT OF ABNER B. LARSON, SECRETARY-TREASURER, MANDAN PRODUCTION CREDIT ASSOCIATION, MANDAN, N. DAK.

Mr. LARSON. Mr. Chairman and members of this committee, my name is Abner B. Larson. I am secretary-treasurer of the Mandan Production Credit Association, Mandan, N. Dak. I represent the North Dakota and the Minnesota associations for production credit.

I am secretary-treasurer of the Mandan Production Credit Association, which has some 1,300 members. We did a volume last year of some \$5,300,000. We have \$3,600,000 in volume outstanding at the present time.

We have about 1,000 members using our services. We have \$290,000 in capital, with reserves amounting to approximately \$400,000.

You will perhaps remember, Senator Holland, that I appeared here a year ago in opposition to section 201 of the Farm Credit Act of 1955.

Senator HOLLAND. I recall that; yes, sir.

Mr. LARSON. We felt that there had not been enough study given to the bill at that time. The group of us that appeared before your committee requested that the legislation again be brought out to the country and that the farmers be given an opportunity to further study this plan. And we then agreed that we would try and come back here with a bill that would meet the approval of most of the farmers of this country.

We are back here now, after having 2 of those meetings in the St. Paul district; and I understand 2 meetings were held in all of the other districts.

I want to say that I believe the meetings that were held in St. Paul were very beneficial, and much good came out of them.

We have given considerable thought to the proposed legislation and, in general, I believe we should go along with it, hoping to improve it later after we have accomplished the first step in this merger.

Although I personally feel that this bill should incorporate features which are not now incorporated in the proposed legislation, we certainly do not want to be likened to the beleaguering general who insists on storming the citadel before we gain the outpost. We feel that this bill is capturing the main outpost.

And for the record, at least, I am herewith listing features that I believe should be eventually enacted into law for the good of the system.

I believe separate boards eventually are a necessity. The Farm Credit Act of 1953 reads, in part, as follows:

It is declared to be the policy of the Congress to encourage and to facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration.

To the extent that the present bill fails to provide increased borrower participation in progressive control, with ownership of the institution that we are expected to purchase, it fails to carry out the declared policy of the Congress. I do not consider that the present 2 PCA elected members on the district farm credit board of 7 men will provide the production credit associations with adequate means of controlling the Federal Intermediate Credit Bank if we purchase it.

The argument in favor of the present setup has been that the 7 men on the district board are equally interested in all 3 branches. This has never been questioned, but we do question that they are close enough to each institution to do the job that should be done.

I believe that separate boards will stimulate the growth of the system by increase in volume which in the final analysis is the ultimate goal of everyone.

It is my further belief that the advisory committee should be included into a larger board. The reason that it has no authority of any kind at present and the only way to strengthen this committee is to give some authority and set out in the last such duties and powers.

Although we believe the foregoing suggestions should be enacted into law in the future, that is not going to stop us from uniting behind this bill as we feel it is a big step in the right direction.

We will do all within our power to support the present legislation and hope that in the not too distant future legislation incorporating the above ideas will also be enacted into law, but for the time being let us do first things first.

Now, I would like to refer particularly to Senate bill 3564, and this is the only little change, Mr. Chairman, that we are suggesting.

And I am referring to Senate bill 3564, and I quote lines 8 through 11 on page 8:

After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Bureau Administration.

Senator HOLLAND. What page again?

Mr. LARSON. Page 8, and lines 8 through 11.

Senator HOLLAND. All right.

Mr. LARSON. The intent of this clause, I am sure, is to give the Administration authority to make adjustments when an association owns stock out of proportion and I think this authority is sound.

However, suppose someone in authority wanted to eliminate all grassroots ownership in this source of agricultural credit, and with this authority retired all class B stock owned by all associations, he could then eliminate our ownership after we had paid for it and then

exercise jurisdiction over the bank with all of the surplus that had been accumulated. This could be corrected, I believe, by inserting one sentence:

In no case, shall all of the class B stock owned by an association or all of the participation certificates owned by other lending agencies be retired without consent of said association or other lending agencies.

Now, I would like to say something in opposition to Senate bill 3550 which I understand is also before your committee here today. We strongly oppose Senate bill 3550. And I again refer to page 12, lines 22 through 25 of Senate bill 3550. It provides for the Government to keep continuing interest in part of the surplus, even after all Government capital has been retired.

This is contrary to principle and precedent. The banks for cooperatives and Federal land banks have been permitted to keep their surplus without governmental interest in case of liquidation, and we see no reason to treat us differently.

We see no reason to keep the Federal intermediate credit bank under the Corporation Control Act. If this bill is passed we are in effect entering into a contract with the Government to buy the system and we do not think it is necessary for the Budget Bureau to tell us how to run it.

We also oppose the reduction of \$30 million in the revolving fund as set up in this bill.

I understand there will be other witnesses that will cover some of the matters that I am briefly going to oppose and I am not going to take very much time. But I want this to go into the record.

We oppose the American Bankers Associations' stand in opposition to the associations' retaining the surplus in both the bank and the corporation.

I think that will be covered in other testimony, and in testimony that I gave a year ago, if anyone wants to refer to it. It will denote the stand that we took at that time. So I will not go into that and take up any other witness' time now.

I want to say just a few words in connection with the OFI. As a secretary of a production credit association I feel that under this bill the OFI is receiving very fair treatment. And I feel that if they should become partners with the production credit system they should also come under the same rules and regulations that production credit associations operate.

We feel that the provision in this law that permits direct borrowing for the OFI's is quite a step forward for OFI's, and the other provisions of the act. Again I want to reiterate that I believe they are receiving very fair treatment.

I want to make it perfectly clear this time that the group as far as I can find out that opposed the bill a year ago, are just as strongly in favor of this bill as we were violently opposed to the measure a year ago.

And we hope that your committee will act favorably and act as soon as possible.

There was one other thing that will probably come up also after I have gone and it did in the House, and that is, regarding whether or not a secretary-treasurer of a production credit association should serve on district boards. This law does not provide for a production

credit association secretary-treasurer to serve on the board of directors of a district.

And I think that is very wise. I do not believe that the management should sit on the board of a production credit association or be a director on the district level. This institution and the intent of this law is to put the control and ownership in the hands of the farmer-owners and for that reason I think that the control and ownership being in the hands of the farmer-owners that the directorships and the policymaking should be in the hands of the directors, not the secretaries.

I want to take this opportunity of thanking this committee most kindly for giving me this opportunity to appear here today.

Senator HOLLAND. We are glad to have you, Mr. Larson, and glad to have your testimony.

Mr. LARSON. Thank you.

Senator HOLLAND. Now, I have one other name that has been furnished as the name of a gentleman who wants to get away, and must get away, Mr. Glen Harris.

Mr. GLEN HARRIS. I would like to complete my testimony, Mr. Chairman, a little before 4 o'clock. I have sufficient time, if you wish to complete the Governor's testimony before me, I think, to follow him, if you wish to do it that way.

Senator HOLLAND. All right.

Mr. Tootell, we will hear you again, sir.

STATEMENT OF HON. R. B. TOOTELL, GOVERNOR, FARM CREDIT ADMINISTRATION—Resumed

Mr. TOOTELL. Mr. Chairman, I should like next to discuss the matter of the ownership interests under the Federal Farm Credit Board proposal, which are incorporated in S. 3564. Under section 102 of this bill there would be a provision for two classes of stock, class A stock which would be issued in denominations of \$100, and class B stock in denominations of \$5.

The class A stock would evidence the interest of the Government so long as capital remains in the system, and the B stock, the interests of the production credit associations.

Senator HOLLAND. Which section are you addressing yourself to now?

Mr. TOOTELL. Frankly, sir, I had not been following the bill—section 102, page 4.

On the effective date of this legislation, the capital of the credit banks of \$60 million would be transferred to the Governor of the Farm Credit Administration, and he would be authorized to reallocate that capital between the 12 Farm Credit Districts.

I mentioned this morning the \$5 million of capital that was given to each of the 12 banks at the time they were set up.

Well, now, experience has shown that their volume of business varies considerably. Each of these merged institutions would have in it all of the capital transferred from the Production Credit Corporation. As of the effective date of the Act, each would have all of the capital of the Production Credit Corporation, all of the surplus of the Production Credit Corporation, all of the surplus of

the credit bank, and then such capital of the credit bank as was necessary to give that district intermediate credit bank a net worth which would support its anticipated loan volume in a ratio of 6 to 1.

In other words, on the effective date of this act each of these district institutions would be started off even in the matter of net worth to its peak indebtedness during the last 5 years, which is as close an approximation as we can make now to what the loan volume will be in the next year or two.

The production credit associations immediately would be required to subscribe in the aggregate for the United States to an amount of capital in the new credit bank equal to 15 percent of the Government's capital in the merged institution. That is, a combination of those 2 is about \$86 million. The subscription, therefore, would be about \$13 million.

This subscription would be allocated to each district and to each association within the district in proportion to the volume of business which it had done with the credit bank on an average during the last 5 years. It would be something just a little bit more than 2 percent of the average outstanding volume of business that these production credit associations have had with the credit banks during the last 5 years.

Within 60 days each production credit association would make a downpayment on that amounting to one-third of this subscription. Then within another year it would make a second one-third payment, and within another year the third one-third payment.

So that in just a little more than 2 years after the effective date of the act this subscription to class B stock on the part of the production credit association would be completed.

The class B stock subscription of an association that had about \$1 million in discounts with the intermediate credit bank for that year would be about \$20,000. It would subscribe to \$20,000 worth of stock. And a third of that, or \$6,700, would be payable within 60 days, then another \$6,700 within a year, and the final \$6,700 within 2 years.

The production credit association having about \$1 million worth of loans and discounts with the credit bank would have probably a net worth somewhere between \$275,000 and \$300,000. So that would mean that its total subscription to B stock would be equal to about 7 percent of its total net worth, which is not a very large part of it. And it would simply be changing assets.

The production credit association would have precisely the same net worth after it made this subscription and bought this stock in the credit bank as it had before. It might make that subscription either out of cash that it might have on hand or it might sell Government securities in order to get the money to do it, but in any event it would be acquiring an asset in the form of credit bank capital to replace a cash or bond asset which it presently has.

The bill provides that the retirement of Government capital after this initial subscription by the production credit associations would come entirely out of the earnings if and when——

Senator HOLLAND. It would not come out of surplus?

Mr. TOOTELL. It would not. They would have net earnings only if and when the management charged a discount rate that had in it a

spread over and above the debenture cost and other costs of doing business.

In a time like this when agricultural income is not satisfactory and particularly along with that, when money costs are very high, the plan would be to operate these credit banks at just as near the break-even point as it would be possible to operate and to keep down the interest costs to the farmers, and to consciously avoid the payment or retirement of any Government capital.

Then in times when interest rates were more favorable and the agricultural income situation was more favorable, the credit banks would charge a higher discount rate, and accrue net earnings from which Government capital would be retired.

And this bill provides that each year after the setting aside of stipulated reserves and the payment of a franchise tax at the same rate, 25 percent, as at present, the remaining net earnings of the credit bank would be allocated to the users in proportion to the use they made of the credit bank.

The allocation to the PCA's would be in the form of B stock; the allocations to the OFI's would be in the form of participation certificates.

Government capital would be—or A stock would be retired each year in an amount at least equal to the sum total of the B stock and participation certificates issued that year so long as this 1-to-6 ratio of assets to total obligations was maintained.

In a year in which the ratio was broader than that, a district board might, at its discretion, use some of the net earnings to further build reserves rather than to retire Government capital.

We believe that in this provision for retirement of Government capital out of earnings, we have one of the very strongest features of this bill. Our board, as a matter of fact, would be quite hesitant at this time of unsatisfactory income in agriculture to propose legislation which would involve a fixed rigid schedule of payments upon the PCA's.

But under this plan, aside from a modest down payment, the PCA's would retire Government capital if, as and when conditions warranted the credit banks operating in a manner to have net earnings.

Over the last 10 years the average discount rate of the credit banks has been a little under 0.4 percent. Our estimates of the rapidity with which the district banks would pay out are predicated on the assumption that over a period of years the average discount rate would be about 0.5 percent more than the debenture cost. In other words, that the credit banks would have a spread of half of 1 percent as against the average of 0.37 percent they have had in the past 10 years.

Another way of getting at this, even if we assume no savings in the cost of operating this combined institution, in comparison with the present combined budgets of the credit banks and the corporations, and we are sure that the district institutions can shade those costs by quite a little, even on that basis, it would take on an average for the 12 district institutions only 0.1 percent interest over and above the investment income of these combined institutions, to pay their operating costs.

I do not know whether I make that point clear. So we might take a try at it another way.

This merged institution will have its surplus and certain of its capital invested in Government bonds. With the earnings from that source it will require an interest spread of 0.1 percent on loans and discounts to pay all of the administrative expenses of this merged institution, even assuming that there are no economies made as a result of the merger.

We are satisfied that, on the basis of our own observations and on the basis of the recommendations of the Arthur Andersen firm that I referred to this morning, savings will be effected which will make it possible on an average for the 12 district institutions to break even without any additional interest cost.

You see, with an additional \$39 million of capital which the credit banks will get from the corporations, it will not be necessary any more, at least for some years, to be building up capital structure out of earnings. It will be possible, at least until the volume of business of the credit banks might get very substantially larger, simply to have a discount rate that is only enough higher than the debenture rate to pay these operating costs, and to retire whatever Government capital it is felt the conditions at that time would warrant. So our Board feels that this flexibility feature is a very important one in this legislation, Mr. Chairman.

As long as there is any class A stock outstanding, patronage refunds would be paid in B stock to the PCA's, and in participation certificates to the OFT's.

After all of the Government capital is retired, then the district would have the option of whether to make those payments in evidences of ownership and patronage certificates, or whether to make them in cash.

Senator HOLLAND. In what form is the reserve carried now?

Mr. TOOTELL. The reserve is invested in Government securities, sir.

Senator HOLLAND. Is that required by the existing law?

Mr. BAGWELL. No.

Senator HOLLAND. Is there any requirement in the suggested law, the pending measure, as to how the reserves shall be invested?

Mr. TOOTELL. There is none.

Senator HOLLAND. Is there any general requirement of Federal law similar to that which we have in most of the States laying down the conditions under which trust funds and estate funds and things of that kind can be invested?

Mr. BAGWELL. No.

Mr. TOOTELL. They say, "No."

Senator HOLLAND. There is, of course, a requirement.

Mr. TOOTELL. Mr. Bagwell calls my attention to the fact, Senator, that the Farm Credit Administration does approve the investments that the district institutions make.

Senator HOLLAND. You know, in the Federal national banking law and other similar laws governing institutions that have moneys for investment there are requirements fixing the conditions of the investment.

For instance, when your national-bank examiner comes to check on a national bank he checks to see what form your reserve is carried in and what your investments are and so forth and so on.

I believe that the same thing results under the FDIC system in the checking of banks, whether national banks or otherwise.

I wonder if Mr. Bagwell would make a check of this matter because, after all, we are planning now to set these institutions up on the basis

where they will eventually be entirely free from Government ownership and Government control, except as such control may be specified in the legislation.

It might well be that the subcommittee or the full committee or the Senate would want to impose some restrictions on the investment of reserve or surplus somewhat comparable to that which prevails in the case of national banks and other institutions of that kind.

I wonder if you would look into that so we will be advised of it before the termination of the hearing.

Mr. BAGWELL. All right, sir.

(The information is as follows:)

FARM CREDIT ADMINISTRATION,
Washington, D. C., April 27, 1956.

HON. SPESSARD L. HOLLAND,

*Chairman, Subcommittee on Agricultural Credit,
Committee on Agriculture and Forestry, United States Senate.*

DEAR CHAIRMAN HOLLAND: During the hearings on S. 3564, you requested information concerning limitations and restrictions placed upon national banks with respect to the investment of their reserve funds, and also inquired whether our proposed legislation should include similar provisions governing the investment of reserves of the Federal intermediate credit banks.

As a member of the Federal Reserve System, each national bank is required to subscribe to the capital stock of the Federal Reserve bank of the district in an amount equal to 6 percent of its capital and surplus, but only half of this amount must be paid in, the other half being subject to call (12 U. S. C. 282). While this requirement applies to all national banks and to State banks that become members of the Federal Reserve System, it is not actually a required investment of reserves, capital, or surplus, as such, and there is no comparable requirement applicable to the Federal intermediate credit banks.

Before declaring a dividend on its common stock a national bank must, semi-annually, carry not less than one-tenth part of its net profits for the preceding half year to what is called a surplus fund until such fund equals the amount of its common stock (12 U. S. C. 60), but there is no specific provision as to how such fund is to be invested. In a general way, for the present inquiry at least, the surplus of the Federal intermediate credit banks (12 U. S. C. 1072) would seem to be comparable to the surplus funds of national banks.

Every national bank and every other member of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district a reserve against its time and demand deposits (12 U. S. C. 462, 462b). The current requirements are 5 percent of time deposits and, depending on where the bank is located, 12 or 18 or 20 percent of its net demand deposits (12 C. F. R., Supp., 204.5). Since the Federal intermediate credit banks are not banks of deposit, they have no need for reserves which would be comparable to the reserve balances which national banks and other member banks maintain with the Federal Reserve banks.

There is no statutory provision as to how other reserves of national banks, such as reserves for contingencies or for bad debts, are to be held, and they may be used as are any other funds of the banks. Similar reserves are also maintained by the Federal intermediate credit banks, and it is thought that such reserves of the credit banks should also be available for use as are any other funds of the credit banks.

Aside from using its funds to carry on the business of banking, a national bank may purchase for its own account investment securities as authorized under regulations prescribed by the Comptroller of the Currency (12 C. F. R., Pt. 1). With some exceptions specified in the law, including United States Government obligations, consolidated Federal farm loan bonds, and consolidated Federal intermediate credit bank debentures, a national bank may not hold, for its own account, investment securities of any 1 obligor or maker in excess of 10 percent of the paid-in capital stock and unimpaired surplus fund of the bank (12 U. S. C. 24, 7th). The Farm Credit Administration by administrative action has consistently required that credit bank investments in securities be limited to United States Government bonds and Federal Farm Mortgage Corporation bonds.

Within the Federal farm credit system, the legal reserves of the Federal land banks are required to be invested in accordance with rules and regulations prescribed by the Farm Credit Administration (sec. 306 (a), 69 Stat. 665) and, under present law, the surplus of the production credit corporations is required to be invested as the Governor of the Farm Credit Administration shall prescribe in direct obligations of the United States or in class A stock of production credit associations, or both (12 U. S. C. 1131c (c)). There is no specific statutory provision as to the investment of the surplus account or contingency reserves maintained by the banks for cooperatives (sec. 103 (a), 69 Stat. 658), or the surplus account or contingency reserves of the Federal intermediate credit banks (12 U. S. C. 1072). As already noted, however, intermediate credit bank investments in securities have been limited by administrative action to United States Government bonds and Federal Farm Mortgage Corporation bonds which under the law may be used as collateral for the debentures issued by the credit banks.

It is our view that the legislation now under consideration need not include any specific requirement that the reserves of the Federal intermediate credit banks be invested in securities different from those in which their other funds may be invested. We think it should be permissible for the credit banks to use such reserves in their discounting and lending operations to such extent as may be deemed advisable, or to hold them in cash or Government obligations, without any separate statutory provision as to how much of such reserves shall be invested or in what securities.

At the hearings there may have been some thought that there should be a limitation on the authority of a Federal intermediate credit bank to lend any temporarily idle funds to other intermediate credit banks, to the Federal land banks, or to the banks for cooperatives. However, any loans to such other banks would, under the pending bill (sec. 104 (b)), be "upon terms and at rates of interest or discount approved by the Farm Credit Administration." Further, since all these banks have access to the money markets, it is anticipated that borrowing from the credit banks by the land banks and banks for cooperatives will be resorted to only for brief periods when the credit banks have funds on hand in excess of their immediate needs, and such funds can be employed by another bank to the mutual advantage of the borrowing and lending banks. It is our thought that authority in the credit banks to make temporary loans of their idle funds to the other banks of the farm credit system would make for a desired flexibility and efficiency of operation. Certainly, no bank desiring to borrow would be able to compel another bank of the system to make any such loan.

Very truly yours,

R. B. TOOTELL, *Governor.*

Senator HOLLAND. All right, proceed, sir.

Mr. TOOTELL. Another provision to which I would like to call your attention as we go along is one which would, together with the present legal authority, make it possible for a complete system of interbank borrowings between the land banks, the intermediate credit banks, and the banks for cooperatives. There are periods of time from a week, ordinarily, to a month in which one of these institutions may have surplus funds and another one be short. By being able to borrow from each other on a negotiated loan basis, ordinarily the terms are more favorable at which they can borrow, and it is an aid to the institution that lends the money to have that short-term investment outlet.

Senator HOLLAND. The same remarks, I have just made would apply to that, also, the question of interbank borrowings.

All right, go ahead.

Mr. TOOTELL. Yes. Mr. Chairman, I would next like to go into this matter of the OFI's or the other institutions with which the intermediate credit banks do business. I mentioned this morning that in total last year the OFI's accounted for about 9 percent of the business done by the intermediate credit banks. And that varied from 1½

percent in your district, Mr. Scott, to 25 percent in the Berkeley Farm Credit District.

The next highest to Berkeley would be the Houston District where the OFI's normally account for something more than 20 percent of the business done by the credit bank.

Some of the OFI's have expressed an objection to this proposed legislation on the grounds that they would not be permitted to acquire ownership in the credit banks in the same manner that the PCA's are. Of course, they have no ownership rights at the present time, any more than the PCA's do.

We feel that it would be a mistake to give the OFI's, any of them, the opportunity to acquire ownership interests in the intermediate credit banks. We feel that the PCA's which are cooperative in nature and which form a federally chartered system that blankets the United States, and which is under the supervision of a Government agency, the Farm Credit Administration, can very logically be given the opportunity to purchase the banks of discount. Also that these banks of discount may very properly continue to provide discount privileges to the OFI's, distinctly a minority group, in the same manner that farmer cooperative associations do a certain amount of business with non-members.

That is an established principle. The non-members in some instances, even get patronage refunds, but they still remain non-members and do not have voting rights, unless they do those things which are necessary to acquire membership.

The OFI's are chartered ordinarily under State laws, except the national banks and Federal credit unions. They have no responsibility whatsoever so far as supervisory responsibility is concerned to the farm credit system. They do not have the same restrictions as to territory that the PCA's have. They may get their lending funds wherever they choose, while the PCA's may get them only from the intermediate credit banks.

Our PCA's, we emphasize right along, are charged with a public responsibility. Congress set them up as part of this system and said, "We want the services of the credit banks to be made available to every farmer who has a reasonable basis for credit."

And yet, the OFI's, which come into being in an entirely different way, which are privately capitalized and financed and ordinarily are operated for profit, although there are a few coop OFI's, do not have the same public responsibility at all.

A few of them do make loans to small operators, in about the same manner that a PCA would. The majority of them are not restricted as to territory the same as PCA's. Often they can operate within an entire State. And they are in a position where they may skim off the cream of the business, taking large loans that are profitable loans, making differentials in their interest rate in order to get large and very satisfactory and profitable loans.

A PCA is restricted to one rate of interest to all of its members, it is restricted to a certain territory, being charged with a public interest and supervised by a Government agency—it has an obligation to make loans which it feels can be repaid but which may not be profitable loans at all.

We believe, Mr. Chairman and members of the committee, that it would be entirely inconsistent to bring into participation in the owner-

ship of a very important unit of this cooperative credit system a group of users who are chartered under State law, who by and large operate for profit, and who are not subject to the jurisdiction of the Farm Credit Administration as are the PCA's. We believe that it would be a very unsatisfactory arrangement, and the Farm Credit Administration urges against any such arrangement.

We have given a great deal of thought and consideration to the operations of the OFI's and to making the services of the credit banks forever available to them, and on a very equitable basis.

Senator HOLLAND. Let me ask you this question: Is there any indication that the OFI's want to become stockholders?

Mr. TOOTELL. Well, Senator Holland, some of them do. There is no unanimity at all. Some of the OFI's do want to become stockholders. Others do not. Their views as to opposing, I think, are somewhat different, and perhaps later on in testimony before this committee that will become evident.

Our board had Mr. P. O. Wilson, who is spokesman for a number of the OFI's, meet with it on two occasions, at which the interests of the OFI's were discussed in some detail. After giving it a great deal of thought the board included in the draft of this bill a number of provisions which in its judgment will safeguard the interests of the OFI's.

First, in the declaration of policy itself, is a statement that the OFI's shall continue to be given access to the services of the credit bank on terms equitable with those of the PCA's.

Then in the body of the bill itself, there are specific provisions.

Then, secondly, each district board of 7 has on it only 2 PCA-elected representatives. We feel, and we were confident that the district boards will all feel an obligation to seeing to it that the OFI's are given fair treatment by the credit bank.

And then our own board and our own Farm Credit Administration would be falling down in their duty, in fact, not complying with the law unless they also saw to that.

So we feel there is no justification for a fear, even after the Government capital is all retired from the intermediate credit banks, that there will be discrimination against the OFI's and we pledge ourselves to see that that would not happen.

Senator HOLLAND. What are the provisions in the bill—you say there are several—that make it certain that the OFI's will have the same facilities continuing?

Mr. TOOTELL. Yes; it is specifically provided in the legislation.

Senator HOLLAND. What section?

Mr. TOOTELL. Well, in the preamble there is——

Senator HOLLAND. I saw that in the preamble.

Mr. TOOTELL. And I am going to call upon Mr. Bagwell to indicate the specific pages on which others are listed.

Mr. BAGWELL. In section 104, on page 13, I believe it is—I do not have Senate bill 3564—do you have a copy of that?

Mr. TOOTELL. Here it is.

Senator HOLLAND. On page 13?

Mr. BAGWELL. It is on page 13, section 104 (a)—it is an amendment to section 202 (a) of the Federal Farm Loan Act.

And then later, on page 15, which is in the same section of the bill, section 104 (d). It is an amendment to section 204 (a) of the Federal

Farm Loan Act which provides that the interest rates charged the OFI's shall be the same as the rates charged the PCA's.

In other words, the early part of that section provides for the facilities of the intermediate credit bank being available to them and a later section provides that they shall be charged the same rates of interest.

Those two provisions, coupled with the declaration of policy which has a requirement that the entire law shall be interpreted consistent with that declaration, we think adequately protects them.

Senator HOLLAND. What are the provisions in existing law by which these independent outside borrowers are served?

Mr. BAGWELL. There is only one provision.

Senator HOLLAND. In the existing law?

Mr. BAGWELL. It says that the intermediate credit banks shall have the power to discount paper for these agricultural credit corporations and similar institutions. There is nothing in the law about what discount rate or rate of interest they shall be charged, and neither is there any provision in the present law which, you might say, gives them a statutory right to discount with the Federal intermediate credit banks.

And then another important section is on page 11, relating to the distribution of earnings, which provides specifically that the OFI's shall participate in the net earnings of the credit banks on the same basis as PCA's, that is, on the basis of their patronage.

That actually starts on page 9. It is section 103 of the bill, relating to the application of earnings, and runs over into page 12.

There is another section of the bill which provides that if dividends are paid on class B stock, a like dividend must be paid on participation certificates. You will find that in section 102, actually it is at the bottom of page 6, line 16:

Whenever a bank has no class A stock outstanding it may pay like dividends on Class B stock and participation certificates in an amount not to exceed 5 percent in any year as declared by the board of directors.

In other words, they are to be treated the same in the payment of dividends.

Senator HOLLAND. What is the provision with reference to the reserve and surplus, set up from January 1, 1957, on?

Mr. BAGWELL. That you will find at the bottom of page 12, and it provides that in the event of dissolution or liquidation, after payment of all debts, the surplus on hand on the effective date of the legislation shall be paid to the holders of class A and class B stock pro rata.

The holder of class A, you will recall, is the Government. And the holders of class B would be the PCA's.

Senator HOLLAND. What I was asking for, I think is found in lines 21, the bottom of page 12, through line 2 to the top of page 13:

and any surpluses established pursuant to subsection A of this section shall be paid to the holders of class A and class B stock pro rata and any remaining assets will be distributed to the holders of class B stock and holders of participation certificates.

Mr. BAGWELL. That is right.

Senator HOLLAND. Our OFI borrowers would hold participation certificates?

Mr. BAGWELL. That is correct.

Senator HOLLAND. So that if there were any distribution of a surplus created after January 1, 1957, they would be recognized ratably?

Mr. BAGWELL. With the class B stockholder, the PCA's.

Senator HOLLAND. Well, I think that is perfectly clear, but the thing that I asked about this morning still is not clear to me.

By what theory do you preclude OFI borrowers prior to January 1, 1957, from participating in any surplus existing at that time?

Mr. BAGWELL. Do you want me to answer that?

Senator HOLLAND. Yes.

In other words, you give the OFI borrowers, after the new organization is functioning, complete participation ratably in any surplus setup after that date, but you do not seem to do that with reference to OFI borrowers prior to that date, in any surplus that exists at the time of the merger, January 1, 1957.

Mr. BAGWELL. Our feeling is, Senator, that this fund was built up largely by the PCA's. Of course, it was contributed too, to some extent, by the——

Senator HOLLAND. This morning the testimony was that about 80 percent was built up by PCA borrowers and about 20 percent by OFI borrowers.

Mr. BAGWELL. That is right.

Senator HOLLAND. Coming down to the meat in the coconut, how do you come to give different treatment to the OFI borrowers after January 1, 1957, relative to surplus, than you do to OFI borrowers prior to January 1, 1957?

Mr. BAGWELL. We know of no practical way that you could give them that sort of an interest because of the many OFI's who did business with the credit banks when this surplus was built up that are not operating today. I believe some—only 18 out of the 94—who are now doing business did business with the credit banks during the 10 years before the PCA's were established.

Senator HOLLAND. Had you thought about this device: Allowing the position of the Budget Bureau to obtain as to that 20 percent of surplus created out of the OFI operations and recognizing the preferred right of borrowers who are in the PCA organizations to have the right to the 80 percent of the surplus otherwise created?

Mr. BAGWELL. We had considered that but had not thought it would satisfy the OFI's.

Senator HOLLAND. The OFI has been operating under a Federal umbrella, has it not?

Mr. BAGWELL. Yes.

Senator HOLLAND. They are asking the right to continue to operate under a Federal umbrella; are they not?

Mr. BAGWELL. Yes.

Senator HOLLAND. They are asking the right to do that without incurring any obligations for the management or anything of the kind; are they not?

Mr. BAGWELL. Without being supervised in any way like the PCA's are.

Senator HOLLAND. Not only without supervision as to their own business, but without incurring any of the problems of management of the business from which they will borrow?

Mr. BAGWELL. Yes.

Senator HOLLAND. The point that bothers me is this: I think it is very difficult to say that as to other OFI's, the people who are served by

them after the merger, you are going to recognize their vested rights ratably in any surplus created after the date of that merger, but you are not going to give similar recognition to those OFI's which dealt with the organizations now being merged, prior to the date of the merger.

I do not know how you justify that.

Mr. BAGWELL. Over the period of 30 years or more that the OFI's have been doing business with the intermediate credit banks they have also discounted with some institutions in which they have not participated in the surplus or earnings of such institutions.

Senator HOLLAND. Let me get this suggestion to you. I think it would be easier for you to justify discriminating against their interests in surpluses after the date of the merger than it would be before, because if they dealt with you with their eyes open after the date of the merger, then, indeed, they would know they were not participating in any surplus that might be created. They would know that they were operating under the conditions that they were to be treated like members with reference to refunds in any year in the way of patronage dividends and the like, but as to surplus created out of their pockets and the pockets of the members they were foregoing any chance to participate in that.

I say it would be easier to have that kind of an operation and have it stick after the date of the merger than it would be before. That is just an offhand opinion.

Mr. TOOTELL. I would like to throw in this angle: The PCA's would be making an investment of \$13 million in this institution, and would be giving up income from that \$13 million in order to effectuate this purchase. The OFI's would not be making a similar investment or, in fact, any investment in the capital structure of the merged institution.

Senator HOLLAND. That is exactly one of the reasons why I say it would be very much easier to justify the discrimination against them after the merger. Before the merger, they have been served under a law that so far as I have yet heard, did not ban them from participation in any surplus.

Mr. BAGWELL. I wonder if we all are clear we are talking here about an interest only in the event of liquidation of these credit banks.

Senator HOLLAND. I understand that fully.

Mr. BAGWELL. We feel that it is somewhat academic, because we don't have any idea that the credit banks would be liquidated and it would take an act of Congress to do so.

There is no way under the present law that they could be liquidated unless insolvent and if they were insolvent, there would be no surplus to distribute to anyone. So it is an academic question, we think.

Senator HOLLAND. I can see that perfectly but at the same time I do not know what the attitude of these OFI's is going to be as to whether they are going to acquiesce to a merger and all of the conditions of it or whether they will insist or put the matter in the lap of some court. I think you need to give consideration to that feature of the matter.

Mr. BAGWELL. We have already heard the testimony over on the House side, so we have an idea—

Senator HOLLAND. Was this question brought up there?

Mr. BAGWELL. Yes; you will hear it before the end of the hearing, I am sure.

Senator HOLLAND. Well, perhaps I am anticipating something that would be fully dealt with later. But right now for me that is a troubling question.

Mr. BAGWELL. It is a question they have raised about this legislation.

Mr. TOOTELL. You were saying because of the investment which the PCA would be making in the intermediate credit banks, and the assurances that this legislation would give the OFI's for equitable treatment, in fact, more favored treatment than the PCA's in terms of what they have in it, that they would have less claim in your judgment or less right to expect patronage participations after the effective date of this act than they actually have in the present accumulated surplus.

Senator HOLLAND. Yes, as a matter of equity, and none if they went ahead with their eyes open and continued to do business with you under those conditions stated right plainly in the face of the law.

I say they would have no leg to stand on. I am not saying that they have one under this situation, but it seems to me that we have got the things really reversed. It would be much easier to sustain, in fact quite easy to sustain banning them from participation in later created surpluses and not so easy to ban them from participating in earlier accumulations.

Mr. TOOTELL. We tried to think in terms of ways and means that might be equitable of giving them some direct benefit out of the surpluses accumulated to date but as Mr. Bagwell pointed out here, there are 94 currently that use the facilities of the credit banks, but 1,200 of them over the years have contributed. Also a good many farmer co-ops have contributed to this 20 percent of the present accumulated surplus not accounted for by PCA business.

Senator HOLLAND. You would have a practical question there, but the courts have upheld many, many of the laws like this. For instance, that deposits in a commercial institution, of actual money, can be forfeited to the sovereign if the depositor or his legal representative cannot be located for a certain period of time. There has not been any great difficulty in justifying that kind of legislation.

Mr. TOOTELL. You mean justifying the 94 getting the benefit of what all of the others have contributed?

Senator HOLLAND. The 94 getting the benefit of what they helped to create and the Federal Government getting the benefit of the rest. This would be comparable to what happens in the case of abandoned bank deposits. That cannot be too different from this situation.

Senator MUNDT. You heard the testimony in the House. Was that along the same general lines that the chairman was discussing?

Mr. BAGWELL. They raised the same general question.

Senator HOLLAND. I had not heard it.

Mr. BAGWELL. You anticipated it very well.

Our thought on this matter of having the OFI's participate in earnings after the effective date of the legislation is simply this—

Senator HOLLAND. Understand, I am not arguing that you should change what you have done here. You certainly make them fight

against your merger much more vigorously if they have no interest in the surpluses from that time forward.

But what I am saying is that it would be so easy to make that kind of a position stick legally. I do not know whether it is easy to make this other thing stick legally. It is putting it somewhat in reverse form to say that you are going to let them participate in surpluses after January 1, but since you had not said anything about it before that time you will not let them participate in surpluses prior thereto.

I would find it rather hard to justify that approach.

Mr. BAGWELL. I would like to make two comments on that.

First of all, as to them participating after the effective date of the new legislation: Our plan under this bill would be to convert the banks to truly cooperative enterprises.

As you know, it is rather common for cooperatives to do business with nonmembers. We would have the banks here do business with the OFI's and have them participate on a patronage basis similar to the way in which the co-ops operate normally.

Senator HOLLAND. Have you any provision on the subject of tax exemption in this?

Mr. BAGWELL. Yes; we have a provision in here that recipients of these patronage certificates, the B stock certificates issued to the PCA's and the participation certificates issued to the OFI's, would not be subject to income taxes as long as there is Government capital in the credit banks.

Senator HOLLAND. Of course, the matter that you referred to a while ago, the practice of co-ops to give the same treatment to nonmembers as to members, comes about, as I recall, very largely because of the desire to be tax exempt.

Mr. BAGWELL. That is correct. It is a rather common practice.

On your first point about whether they would have a legal claim under the present law, actually neither the OFI's nor the PCA's have any legal claim to the surplus.

Senator HOLLAND. You are not agreeing with the Bureau of the Budget on this matter, are you?

Mr. BAGWELL. No, sir, I do not think so. I am agreeing to the extent that there is a provision in the law now with reference to the disposition of the surplus.

Senator HOLLAND. After the liquidation?

Mr. BAGWELL. That is correct, after liquidation. I was just stating a fact.

Senator HOLLAND. Not making any concession?

Mr. BAGWELL. No, sir.

Senator HOLLAND. Well, I think here is a nice point that we have got to work out something on. However, that is just my offhand opinion. Do either one of you gentlemen want to comment on it?

Senator SCOTT. No.

Senator MUNDT. No.

Senator HOLLAND. Go ahead.

Mr. TOOTELL. I raise this one further question of this matter of the relationship of the OFI. Assume that it was felt that they should be entitled to participate in the surplus, how could you do it without recognizing an interest in—an ownership interest in the credit banks?

And if you admit that and permit that, then it raises a whole gamut of other questions as to representation on district boards, et cetera.

You have some districts in which only as little as 1½ percent of the borrowing from the credit bank is done by OFI's.

You raise the question as to certain privileges they enjoy in the matter, for instance, of unrestricted territory and of not being subject to supervision. We feel that it would be a very complicated situation.

The OFI's would be having nothing taken away from them that they presently have. They would have some things added which Mr. Bagwell pointed out. And they would continue to be guaranteed a home where they can discount their paper on terms just as favorable as those of the PCA owners.

Our board feels that is entirely equitable.

Senator HOLLAND. I do, too.

Mr. TOOTELL. We feel that this legislation is in the interests of farmers and ranchers of this country; that it will enable the farm-credit institutions involved to do a better job of serving them. It would increase the financial structure of the intermediate credit banks by \$39 million and strengthen them at a time when they are being called upon to discount more paper and give greater service than they ever have had before.

Our Board hopes this committee will see its way clear to recommend approval of this legislation.

I thank you very much.

Senator HOLLAND. Thank you very much. You made a very fine presentation.

Senator MUNDT. Let me ask you one overall question.

Would you prefer no legislation of this type whatsoever as against legislation which would accept the Budget Bureau's recommendations and otherwise go along with your proposal?

Mr. Tootell, I am not at all sure that you will face that.

Mr. TOOTELL. I can state and will state for the Board as to this point:

As to 2 of the 3 provisions which the Budget Bureau would require, the Board and the production credit associations that would be called upon under this legislation to buy the credit banks would say, "Yes, they would prefer no legislation."

The legislation which would continue the ownership of the Government in the credit banks after all of the Government capital is retired, or, a provision which would require the credit banks to continue to be under the budget provisions of the Corporation Control Act until the last dollar of Government capital is removed—they have no objection to remaining under the audit provisions until the last of the Government capital is removed.

Senator MUNDT. That would be items 1 and 2?

Mr. TOOTELL. That is right.

Senator MUNDT. You do not raise such serious objections to item No. 3?

Mr. TOOTELL. No; not nearly so serious. As I stated this morning, it was the judgment of the Board, it being unable to foresee what is ahead in the next few years and the fact that that amount of capital already is in the system, that it was reasonable to ask for the larger revolving fund.

Senator MUNDT. I understand.

Senator HOLLAND. All right, sir; thank you, sir.

Mr. TOOTELL. Thank you very much.
Senator HOLLAND. Mr. Harris.

**STATEMENT OF GLEN R. HARRIS, CHAIRMAN, NATIONAL ADVISORY
COMMITTEE OF PRODUCTION CREDIT ASSOCIATIONS, RICHVALE,
CALIF.**

Mr. HARRIS. My name is Glen R. Harris, and I am a resident of Richvale, Calif. I am a member of the national advisory committee of production credit associations representing the 11th Farm Credit District, and am currently serving as chairman of that committee. The full membership of the committee, one member being selected by the production credit associations of each farm-credit district, is as follows:

District 1—William Wadsworth, Farmington, Conn.
District 2—H. G. Blalock, Baskerville, Va.
District 3—W. F. Woodruff, Nashville, N. C.
District 4—W. E. Lacy, Hopkinsville, Ky.
District 5—P. F. Williams, Clarksdale, Miss.
District 6—R. H. Lanterman, Chatham, Ill.
District 7—Walter H. Dunn, Ellendale, Minn.
District 8—William Yungelas, Webster City, Iowa.
District 9—King L. Banks, Delta, Colo.
District 10—Grover C. Impson, Beeville, Tex.
District 11—Glen R. Harris, Richvale, Calif.
District 12—Jack Arnold, Birney, Mont.

I would like to introduce them to you: Mr. W. E. Lacy, of Kentucky, the vice chairman of the committee; Mr. Yungelas, of Iowa, the secretary of the committee; Mr. Blalock, of Virginia, and Mr. Banks, of Colorado, the other two members of the executive group.

Senator HOLLAND. We are glad to have you.

Mr. HARRIS. I would like to add to my statement that all of these gentlemen are farmers or ranchers, all of them directors, and in most cases president of their own production credit associations in their home localities as well as serving on this national advisory committee.

Our testimony, Mr. Chairman, was prepared to present over in the House of Representatives and we have in some cases referred to H. R. 10285, and the identical bill which we understand is Senate bill 3564, is identical, and I have corrected the testimony in pen and ink here.

I think I might have missed some, so if you will understand where it says H. R. 10285 we are intending to say S. 3564 in this testimony.

Senator HOLLAND. Very well.

Mr. HARRIS. The committee met in Washington, D. C., on April 18, with all members present, and voted unanimous support of S. 3564 and the other identical bills introduced in the House and Senate.

We prefer the provisions of these bills over the slightly different version contained in S. 3549 because of the greater administrative control left with the district farm-credit boards, which we believe is very desirable.

We are opposed to S. 3550 to the extent that it differs from the other bills in treatment of the reserves, revolving funds, and continued Government control over the new combined corporations. We would prefer no legislation be enacted rather than have these provisions become law.

This committee is particularly pleased with the features of S. 3564 providing for user ownership and control by making the combined

banks cooperative institutions, with provision for participation by the users, and with the flexibility provided in accomplishing the retirement of Government capital as agricultural conditions and progress of our production credit associations permit.

The committee last year supported the Farm Credit Act of 1955, including section 201, which was deleted by the Congress. However, at that time we recognized that section 201 was not a complete answer and now recognize the wisdom of the Congress in not adopting section 201, but rather waiting until a complete plan including both the production credit corporations and the intermediate credit banks could be developed.

We believe S. 3564 does provide such a plan, and that under its terms complete farmer ownership can be attained without any significant increase in costs to production credit associations or other financing institutions, through the opportunities it provides for economies resulting from consolidation and streamlining the organization, the flexibility provided in accomplishing retirement of the Government capital, and through the possibility of making better use of the capital now in the system.

We are gratified that the Congress last year enacted the balance of the act of 1955 which provided the plan by which our sister institutions in Farm Credit, the banks for cooperatives, can accomplish user ownership, and also the provisions improving the position of the land-bank part of the system.

We wish to particularly endorse the provision of the act of 1955 prohibiting secretary-treasurers of national farm-loan associations from simultaneously serving as members of district farm-credit boards. It has not been possible for secretary-treasurers of our production credit associations to do so and we do not believe it is good administration or should be permitted in either case.

We understand that there is some opposition from various of the other financing institutions to S. 3564. We therefore wish to comment that we believe that S. 3564 provides fair and equitable treatment of OFI's.

It provides that they shall continue to have the services of the credit banks available on the same terms and conditions as they will be available to production credit associations, that OFI's will participate to the same extent as production credit associations in any equities built up or distributed, according to their volume of business, and they are not being required to make the initial payments which are required of production credit associations.

We wish to make clear that no production credit association desires to deny the OFI's the services of the credit banks, but that on the other hand, it is in our interest that we encourage their use of these facilities, thereby building greater volume of business and greater efficiency of operation.

Of the 498 production credit associations which this committee represents, only 50 to 60 associations have expressed any opposition. In 6 of the 12 Farm Credit districts there has been no opposition voiced. In the other 6 districts there is scattered opposition.

Some of those opposing simply request delay because they feel they are not now ready to make the initial payment. Others have various objections, such as desiring a different name for the combined bank or a greater voice in management.

A number of those opposing, however, say if there is to be any change from their present status, they believe that the provision of S. 3564 provide an acceptable plan.

We, therefore, report that the great majority of the production credit associations are in favor of S. 3564 and urge your committee to approve the bill and the Congress to enact it into law, that we may move forward toward the objective of a completely cooperative and user-owned credit system for agriculture.

Now, Mr. Chairman, I should like to make a few additional comments with regard to the proposals of the Bureau of the Budget, in the maintenance of an interest in the reserves and the continued governmental control over the new corporations.

It is our feeling that the matter as the Governor has already said to you, who owns the reserves is possibly only of academic importance so long as the intermediate credit banks remain in existence. But we are immensely concerned that that expression of the continued governmental interest in them will be the reason for continued governmental control and, particularly, with regard to the budget provisions of the Government Corporation Control Act, which will subject the institutions, and consequently, our associations to greater costs and greater delays and greater administrative difficulties over the years, simply to comply with those rules, to get permission to spend our own funds, which is essentially what it would be.

And it is the matter of budget control features that we are particularly concerned about in the Bureau of the Budget's proposal.

However, we also feel that we have been responsible for the establishment of a great part of those reserves, and we have an equitable claim to them, so far as that is concerned.

We believe they should be left in there with full ownership to come to the associations and the OFI's at such time as the Government capital is repaid.

Another point in my testimony, I have mentioned that we think that farmer ownership can be attained without any significant increase in interest costs to our associations. I would want to make clear there that we are talking about any significant increases as a result of this legislation. We understand that there are some increases coming because of increased costs of money. And some have already come. Those are of some concern to our associations. We hope that that trend can be reversed for us before too long.

We do not believe that this legislation would have any significant part in any increases, and that actually we can go forward with it without it being a factor in any interest increases.

Thank you, Mr. Chairman.

Senator HOLLAND. Thank you for your statement.

To come back to the question of reserves, I quite well understand why you do not want the Government to have a continuing interest in there and I appreciate that point of view.

The thing that causes me concern is this: You are claiming the reserves up to the time of merger on the theory that by payment of greater interest rates than was necessary to carry the business, you have created those reserves, even though Government capital was what was employed.

I think that is a perfectly sound position to take as to that part of the reserves created out of the interest paid by the stockholders, but I think

that it so not so sound when you come to the other part of the reserve that was created out of interest paid by OFI's.

And particularly do I think that you weaken the strength of your position, both equitably and legally, when you turn right around and say, from the date of the merger it shall be otherwise. OFI's should be represented ratably with others, with the owners, in the apportionment of any surplus created from the date of merger.

It would occur to me that you are on sounder ground from every standpoint if you want to maintain your position of freedom, completely, from governmental claims against this reserve after your Government stock is retired, by adopting the other approach, namely, that that part of the reserves from the date of the merger which is created out of the activities of the owners, both present and past, shall belong to the corporation and shall be handled in the event of liquidation just like any other surplus would be; but as to the lesser part that was created by the interest paid by the OFI's, that that, in the event of liquidation, should belong to those who created it, and if we find later who can not claim it, it will be easy to pass legislation to dispose of any small undistributed part of the reserves.

And if you folks are as sound in your belief that there won't be any liquidation, that these organizations will be held for centuries, which I believe will be the case, no result will come from such disposition. There might very easily come practical trouble, both on the floor and in the matter of getting presidential approval and the matter of court litigation in the event that you claim for your own stockholders something beyond what they themselves have put up.

I just suggest that. I do not think it is any serious question because I think you can handle it, along the lines that I have suggested there; and there may be other ways, too, without coming to grips with the Budget Bureau on its contention, that you paid the excess of interest or the OFI's did, that it was paid on Government capital and should belong eventually to the Government.

That is the position that you do not want to accede to.

Mr. HARRIS. That is correct. That is one point that we would be concerned about, that if in the attempt to segregate the amount of the present surplus that has been built by the OFI's from that built by us, and then in the course of that segregation it was determined that it would remain in the Government ownership because of the inability to find the proper OFI to credit that amount to, in as much as a great many of them are no longer in existence, then that did continue to carry forward this Government ownership of a portion of it; and consequently, continued to subject us to the budget provisions and that sort of thing, we would be very much concerned about that.

Senator HOLLAND. No; I did not suggest that there would be any Government ownership continued in the matter at all but that on the date of the payment out of the Government stock, the retirement of the Government stock, that the equity in the reserves belonged to those who created it, and not that there would be any forced liquidation at that time or any forced apportionment of the interest—the Government did not create it.

You can word it very easily where it would be distributed to those who created it by way of paying higher interest rates than they would have had to pay to carry the business, simply on a level keel.

Mr. HARRIS. I would like to make another comment, that I think that the Governor's point that the business of the production credit associations since 1933 has been a great percentage of the total business, and that that provided the credit banks with a better basis of operation than they would have had otherwise.

I think there is real doubt whether this 20 percent can be accurately ascertained, because you have to go back and assume some things. And I think maybe without the production credit system the credit banks would not have that surplus now that they presently have.

And consequently, the 20 percent figure would not have been true without the production credit system coming into being and being a part of the operations since they have been from 1933 to the present time.

Senator HOLLAND. I think that is true. Neither would your reserves have accumulated to the amount that they have if you had not had others participating with you in the business. It works both ways.

Mr. HARRIS. Yes. I say again that we in production credit have no quarrel with the OFI's and feel that they are a necessary part of the credit bank operation.

Senator HOLLAND. You have accurately stated it in your presentation that the more business you have, the better it is to all concerned. I think that is sound.

Mr. HARRIS. Thank you, sir.

Senator HOLLAND. Are there any others here from out of town who want to be heard without fail this afternoon?

Come up, sir. Maybe you will have a better suggestion to make about this troublesome question.

STATEMENT OF ROBERT O. JUSTICE, PRESIDENT OF THE BOARD, PERU PRODUCTION CREDIT ASSOCIATION, PERU, IND.

Mr. JUSTICE. I am Robert O. Justice, president, and this is Joe Payne, of the same association, secretary-treasurer of our association.

Senator HOLLAND. All right, gentlemen. You may proceed, Mr. Justice.

Call upon your right arm there whenever you may need him.

Mr. JUSTICE. We welcome questions and I bring him along to answer the questions.

Senator HOLLAND. All right, sir.

Mr. JUSTICE. Mr. Payne is a farm operator, lives on his farm and has a production loan.

I, likewise, live on and operate my farm and have a production credit loan.

And due to the fact that we are that close to the membership of the production credit, we would like to advance our reasons based on the desire of the large number of the members.

You have heard the Governor, Mr. Briggs, the President, Federal Board, and Mr. Harris just recently from the National Advisory Committee. They have given you the reasons for this legislation, the various technical ramifications of it.

We would like to present what we think is the opinion of the common member out here on the farm who is going to pay the costs and assume responsibility for the management.

I will say just a little about our association.

We represent 3,054 members of our association there in Peru, Ind. We loaned something like \$10 million last year. We have an outstanding balance on March 31 of 1956 of \$5,322,619.

I have been a member of the board since organization in March 1934 and have seen our association grow from no reserves until December 31, 1955, when we had surplus and reserves of \$533,416 and a net worth of \$967,942.

I give you those figures in that statement there to show that I think we are a pretty typical production credit association.

It is not my purpose to discuss in detail the ramifications of this legislation nor the accomplishments we expect from its passage; these have been discussed previously.

I believe the people vitally concerned are the members of production credit associations throughout the United States—honest-to-goodness dirt farmers. There has not been too much said about the farmers. When you get to the basic facts they are the ones concerned. I think they should have more consideration. That is why we proposed to advance their thinking.

We are here for the purpose of urging the passage of Senator Holland's bill S. 3564. We have not been sent here by any group of associations or any committee, but are here on our own to represent the 3,054 members in our association and we think that our sentiments reflect the majority of the thinking of the membership in the Fourth District.

It is because of my contacts and acquaintance with the association directors and secretary-treasury during the past 22 years that I feel I can express the majority sentiment of the more than 50,000 active members in the fourth district who had outstanding loans of \$95,443,098 on March 31, 1956.

I visited all of the associations in Indiana, most of the associations in Ohio and some in Kentucky, and I feel that I understand the thinking of the members in those areas.

I dislike to bring out any repetition when time is so short.

Proposed legislation has been presented to the directors and secretary-treasury of our district twice since the 1955 farm credit bill was considered by this committee and at the first of these meetings there were many different opinions, dissatisfaction, and discussion but no agreement was reached.

When the revised draft of the bill was presented at a later date by Governor Tootell and Mr. Miles, a resolution approving legislation such as Senate bill 3564 provided was unanimously approved in the fourth district.

I will say there were approximately 200 directors and secretary-treasurers in attendance at this meeting.

I explained this bill to 600 of our members at our annual stockholders meeting on March 7, 1956, and their comments were to urge passage of the bill as it provides a means by which the Government capital can be retired from 2 more farm credit units with the least possible hardship to the members of the associations.

Approximately 75 percent of our members are farm owners, and farmers by their very nature take a lot of pride in ownership. It was with great pride that the members of our association returned the class A stock held by the Government in our association, and we know

from their expressions that they are looking forward to returning the Government capital from the other units as proposed in this legislation.

The fact that our business has increased \$2 million since the Government capital was retired in 1952 is evidence to me that it means a lot to our members to own their own credit association.

We filed testimony with this committee a year ago on the farm credit bill of 1955. At that time our members favored a bill embodying the principles now contained in this bill, S. 3564, but were willing to support the bill presented last year rather than not have any plan for retiring the Government capital from the production credit corporation or the Federal intermediate credit bank.

Now, gentlemen, we urge passage of this bill, because through my personal contacts with members of the Peru association and other members throughout the fourth district I am convinced that the great majority favor the legislation as set out in this bill.

It also carries out the intent of the Farm Credit Act of 1933 and the declared policy of the Farm Credit Act of 1953.

According to evidence submitted before the House committee, considerably more than 400 of the 498 production credit associations favor this bill. Since it is the purpose of this bill to facilitate complete farm ownership of the farm credit system and such a large percent of the members of the PCA's are in support of S. 3564, we respectfully urge your support and its final passage.

We do think, however, that when the members become the owners of all B stock in the credit bank, the law should provide that all such B stock cannot be retired so that the credit bank cannot become a public trust.

It is a privilege to be here. I cannot say it is altogether a pleasure, but I will say it is a privilege.

Senator HOLLAND. When I saw a gentleman down here from Peru, I thought it meant something contributed from our sister Republic down south, Peru.

Mr. JUSTICE. No.

Senator HOLLAND. You are just from the Corn Belt of Indiana, than which I understand there is nothing better.

Mr. JUSTICE. North central Indiana, north of Indianapolis.

Senator HOLLAND. If there are no questions, thank you very much.

Mr. JUSTICE. Thank you.

Senator HOLLAND. Next is Mr. King Banks, National Advisory Committee of PCA's.

You may proceed.

STATEMENT OF KING L. BANKS, REPRESENTING THE PRODUCTION CREDIT ASSOCIATIONS OF THE NINTH FARM CREDIT DISTRICT, DELTA, COLO.

Mr. BANKS. My name is King L. Banks, of Delta, Colo. I represent the Ninth District of the Farm Credit Administration which is composed of the States of Kansas, Oklahoma, New Mexico, and Colorado. We have 41 production credit associations.

My information from the State chairmen of Kansas and Oklahoma is that their production credit associations are unanimous in support of the bills presented by the National Board, H. R. 10285 and S. 3564.

They are against the provisions of the bill as presented by the Bureau of the Budget with the possible exception of the reduction suggested in the revolving fund. Some associations in New Mexico favor the new bill; some are against it.

I know that 1 is for it and 1 against it. The other three, I have no information definitely from them.

Senator HOLLAND. You mean in New Mexico?

Mr. BANKS. In New Mexico.

In Colorado, at a recent meeting of our State Advisory committee, 4 associations favored the bill and 4 were against it.

The reason for the unfavorable votes in Colorado was principally the possibility of a raise in interest rate to our members to cover the additional cost. The others felt that the new bill presented by the National Board was such a long step forward that we should accept it and then if there was any appreciable increase in cost we could take the necessary steps, political or otherwise, to remedy the situation.

I might say that this increase in cost and the initial investment as suggested amount to 2.07 percent of the average month, and volume of loans is of great concern to all associations in our district.

The Ninth district has consistently battled any change in the 1933 act other than amendments. But the 1953 act was passed and is now law. We realize the pressure on the new Board to propose legislation to retire, as soon as possible, the Government capital in the system.

The National Board has worked hard and conscientiously to this end and the bill they have presented, with the exception of the 2.07 percent initial investment, as we mentioned before, is a long step in this direction. We feel that, if possible, we should get the National Board's bill with the elimination or reduction in the initial investment.

For the record, I want to state that our district, while not unanimous, is overwhelmingly favorable to this legislation as proposed by the National Board.

Senator HOLLAND. You recognize, I see, that the National Board is under a mandate because of the 1953 legislation?

Mr. BANKS. That is right.

Senator HOLLAND. To move toward elimination of the capital investment of the Federal Government in these units of the Farm Credit Administration.

Mr. BANKS. We fully realize that; yes, sir.

Senator HOLLAND. You support that approach?

Mr. BANKS. We do.

Senator HOLLAND. All right; thank you, sir.

Mr. BANKS. Thank you.

Senator HOLLAND. Mr. Kenneth L. Scott, Director, Agricultural Credit Services.

STATEMENT OF KENNETH L. SCOTT, DIRECTOR, AGRICULTURAL CREDIT SERVICES, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. SCOTT. The Department believes that this proposed merger of the Federal intermediate credit banks and the production credit corporations is an opportunity to further improve the facilities of the farm credit system to the benefit of farmers and ranchers throughout the country.

I appreciate this opportunity to discuss with you briefly some of the more important phases of this legislative proposal, as we see them.

Credit, of course, is an essential farm tool. Credit that is carefully geared to the particular requirements of agriculture, and especially to the sound needs of individual farmers, is especially helpful to the successful conduct of individual farm businesses.

Farm people need credit in good times as well as during the less favorable years. The lack of such dependable credit brought into being the production credit system as the members of this committee well know. Here we have a system that was carefully designed to meet a real need; a system that is devoted solely to the extension of sound, helpful agricultural credit services.

The record of the production credit system has been outstanding in several respects. In the early days there were skeptics who thought farmers could not safely be entrusted with the responsibility of making loans. Billions of dollars have been loaned with insignificant losses.

Of much greater significance is the pace-setting example which the Congress had in mind when the system was established. Notwithstanding the importance of the large volume of loans that have been made, I believe it is true that this pace-setting function has been of greatest benefit to our agricultural people generally.

The principles of lending which this system put into widespread use have now been accepted by other agricultural lenders and adapted to their lending policies.

Loan terms suits to the needs of farmers with particular emphasis on the repayment capacity of the business are now the common practice as a result of this fine example.

The agricultural commission of the American Bankers Association has been actively sponsoring for several years the use of agriculturally trained men in country banks and the establishment of special agricultural loan departments.

I think it is fair to say that the Production Credit gave this movement great impetus. The outlook for future agricultural developments is such that there will be further opportunities for the production credit system to perform additional pace-setting functions.

It is important to remember why this special credit system has worked out so well. It didn't just happen, of course. The Federal intermediate credit banks were in existence long before the production credit days. Their basic authority and functions haven't changed much during the years. They are wholesalers of agricultural credit. They have developed a reputation for their debentures which cause them to be looked upon by the most prudent investors as blue-chip investments.

It is essential that this fine reputation be carefully maintained to insure a continued supply of loanable funds. The Department believes that this bill would add further strength to this phase of the system.

Private discount companies, the original outlets for the services of the credit banks, have continued to use the banks' facilities. Although production credit associations have for many years provided most of the volume of service, the Farm Credit Administration has very properly carefully safeguarded the rights of these private companies.

The bills under discussion contain specific assurance that this equal treatment will continue.

This PCA record of sound helpful loans is the result of—

- (1) A tailor-made system to meet a specialized need;
- (2) A system of lending that attracted and retained the active interest and support of leading farmers and ranchers;
- (3) A special type of supervision and guidance that has built strength and leadership where it is most important; namely, in the local lending offices. There is no substitute for sound, practical loan decisions out in the country where lender and borrower can sit down and work out the type of credit needed; and
- (4) Progressive decentralization of responsibility.

Our rural people have an important stake in the continuation of this type of supervision and guidance. From their standpoint this helpful guidance in sound lending and the continued emphasis on service-mindedness is very important.

The dependability of this type of credit needs to be carefully safeguarded and further strengthened at every opportunity. The Congress has on several occasions under the leadership of this committee and the House Agricultural Committee, taken just such actions as experience and progress of the system showed to be needed.

The Department has great confidence in the actions that the National Farm Credit Board and Governor Tootell are taking to further strengthen this cooperative system. From our frequent discussions with them we know they are sincerely anxious to help the system be of maximum service to farm and ranch people.

The accomplishments during the past 20 years with this special type of supervision by the Production Credit Corporations, are so evident that I would like to respectfully suggest, Mr. Chairman, that it might be helpful to the National Board and Governor Tootell for this committee to emphasize the importance of there being strong provisions in this merged institution for keeping the system service minded.

In addition to the benefits to our farm people there is a public interest in this. The lending policies of private and cooperative lenders have, as you know, an immediate influence on the demands that are made on the Farmers Home Administration for supplemental credit service.

The shifting of farm people from one lender to another is certainly very disturbing and costly to them, to say the least. This can be minimized by good dependable service through the production credit system.

In the Farmers Home Administration we have a very outstanding group of devoted and capable people who are always anxious to help those who cannot get credit on reasonable terms elsewhere but we need to the extent possible to keep the Farmers Home Administration in their traditional field of helping young farm families become established and providing supervised credit with sound management help. The extent to which they have to get into emergency or temporary lending, of course, detracts from what they can do in carrying out their basic lending responsibility.

President Eisenhower in his agricultural message last January referred to the traditional importance of commercial and cooperative lenders in supplying the bulk of agricultural credit.

The Administration, of course, is anxious that these sources of agricultural credit continue to provide a maximum of help to farm people. There is a need at this time for some additional supplemental credit through the facilities of the Farmers Home Administration.

Mr. Chairman, at an early date I hope to have the opportunity to discuss with this committee the Administration's proposals for broadening and extending the authority of FHA.

The 20 years that I spent on the staff here of the Farm Credit Administration and the prior experience of managing a private loan company that discounted with the Federal intermediate credit banks causes me to believe very strongly that the specialized type of credit service that is being furnished by the production credit system is very beneficial to farmers and ranchers generally.

A large volume of helpful service is being provided by other agricultural lenders which often have other important functions that must be safeguarded. I refer, of course, to the responsibilities banks have to their depositors and the marketing or processing services which other agricultural lenders often carry out with their credit services largely an adjunct thereto.

In Farm Credit we have a permanent system. The production credit associations are designed to continue year after year with no interruption in ownership or basic functions.

Farmers and ranchers need this type of permanent service, a pace-setting service, an institution owned and managed by people devoted to the single job of providing sound credit needs of the farmers and ranchers.

In closing may I again say that the Department believes that the merger of the intermediate credit banks and the production credit corporations would be advantageous to our farm families. The details of the proposal have been worked out with great care and as a result of many discussions throughout the country.

In addition to the advantages I have mentioned, this merger will provide an opportunity to reduce somewhat the cost of getting loanable funds and providing needed supervision.

Thank you, Mr. Chairman, for this opportunity to appear before you.

Senator HOLLAND. Do I understand that you speak for the Department of Agriculture in this statement?

Mr. SCOTT. Yes, sir.

Senator HOLLAND. And that the Department gives its unconditional approval to the pending legislation?

Mr. SCOTT. To the merger.

Senator HOLLAND. To the merger?

Mr. SCOTT. Mr. Chairman, we have not taken a position on these bills, the details of the bills, because of the points which, as you know, the Bureau of the Budget has raised, but we do strongly favor the merger.

Senator HOLLAND. In other words, you think that the 2 sets of institutions should be combined into 1?

Mr. SCOTT. Yes, sir.

Senator HOLLAND. According to the general plan outlined in all of these various acts?

Mr. SCOTT. That is right, sir.

Senator HOLLAND. Thank you.

Mr. SCOTT. Thank you.

Senator HOLLAND. All right.

The next gentleman here is Mr. H. G. Blalock.

**STATEMENT OF H. G. BLALOCK, NATIONAL ADVISORY COMMITTEE
OF PRODUCTION CREDIT ASSOCIATIONS, BASKERVILLE, VA.**

Mr. BLALOCK. My name is H. G. Blalock. I am a farmer in Mechanicsburg County, Va., president of the South Hill Production Credit Association, and am on the advisory committee of the National Advisory Committee from the Second Farm Credit District.

I am also president of the Virginia Farm Bureau Federation.

The production credit associations of the Second Farm Credit District, all of them, are unanimously supporting this bill. I have taken it up with all of them, and have asked any who had any objections to report to me, and they have all had sufficient time to report any objections. I have heard no objections, but without request I have had a number of reports from a great many of the associations favoring this bill.

So that I think I can say without any dissension that our associations in the Second Farm Credit District are unanimously in favor of it.

And, as a farmer and as president of the local production credit association, we think that it will be for the benefit of the entire system. We certainly hope that you can see fit to pass this bill out.

Senator HOLLAND. The sentiment in your area is very much solidified, more than it was last year; is that correct?

Mr. BLALOCK. Yes.

Last year, however, our group was pretty well together with some reservations of what was in last year's bill, but we think that this is much better. Certainly, they are all together now, whereas we had some reservations by some associations last year.

Senator HOLLAND. All right, sir. Thank you very much.

Mr. BLALOCK. Thank you.

Senator HOLLAND. Mr. W. E. Lacy is our next witness.

We are glad to have you here, and will be glad to hear from you now.

**STATEMENT OF W. E. LACY, VICE CHAIRMAN, NATIONAL ADVISORY
COMMITTEE OF PRODUCTION CREDIT ASSOCIATIONS,
HOPKINSVILLE, KY.**

Mr. LACY. Mr. Chairman and members of the committee, I am very glad to be here.

Senator HOLLAND. You were here last year, were you not?

Mr. LACY. Yes, sir.

Senator HOLLAND. We are glad to see you again, sir.

Mr. LACY. Thank you, sir.

My statement is also off of the cuff, and I will be a little easier to stop than my wife would be, if she were testifying. I assure you that my statement will be brief.

I am a farmer. My home is in Hopkinsville, Ky. I am here representing the fourth district. I am also vice chairman of the National Advisory Committee of the Production Credit Associations.

I would like to concur in the statement made by our chairman of the National Advisory Committee to this committee.

I would like to make some additions to that statement, primarily for the fourth district.

Perhaps the fourth district has been slightly over-emphasized here, but I believe in my remarks I may be able to justify that fact.

I am happy to represent the largest district in the United States, from the standpoint of active membership; also from the standpoint of the largest volume of loans.

There are over 47,000 active members in the Fourth Federal Farm Credit District. That is Ohio, Indiana, Kentucky, and Tennessee. Those 47,000-plus members made loans last year in excess of \$156 million, which is the largest district in the United States.

I am also vice president of my local association down in western Kentucky. I have been connected with production credit for the past 19 years.

I was elected to the National Advisory Committee in 1949. If I may, I would like to give you just a brief history of that Committee, because I think it relates to this bill that we have before us here today.

Senator HOLLAND. That is the Committee of which Mr. Glen Harris is Chairman?

Mr. LACY. That is right, sir.

This committee was organized, I think, in the year 1946. I came on that Committee in the year 1950.

That Committee was talking then about some of the fundamentals of this bill. I understand that they had been talking about it for 2 or 3 years prior to that time.

The point I would like to make is that this is not an overnight dream, this legislation. This legislation has been prepared and written by men who have lived and grown up in production credit and in farm credit.

Quite a number of those men who were on the National Advisory Committee, who are on there now—they were at that time—are now on this Farm Credit Board. I think all of those men are well qualified. I am sure they have given consistent consideration to this legislation.

They have brought this legislation out in the district on 2 or 3 different occasions, to the people in the district.

I would like at this time to report on my district.

There are 2 associations out of the 40 in the 4 States that are opposed to this legislation. They have not registered opposition to it, so far as I know, certainly not to me. But I have learned that they are opposed to it.

There are 2 associations that are neutral or noncommittal. I am not able to tell just which they are.

That is 4 associations—2 against it, 2 that are doubtful, out of the 40 associations in the Fourth District.

I think, sir, that the support of this bill last fall was almost solely with the exception of the Sixth District, the St. Louis District, and there is very little opposition to this legislation at the moment from production credit associations. It is comparatively small.

But the farmers are disturbed, I think, in all sections of the country, due to this high interest rate. I am wondering if they might

not be attributing some of it even to the discussion of this legislation. Certainly it has no bearing on the cost of money. I think perhaps we have in the country possibly about 7 men that do have some bearing on the cost of money and in their policy.

Unfortunately, the action that those men have taken has seriously reflected back to the cost of money in the production credit associations.

Senator HOLLAND. Are you speaking of the rediscount?

Mr. LACY. The rediscount rate.

Senator HOLLAND. Of the Federal Reserve Board?

Mr. LACY. Yes.

That cost of money is certainly bad for agriculture. It is bad for the production credit associations, and it is terrible for me.

That cost of money may be helping industry and business, but it is hurting agriculture. Perhaps industry and business is inflated, but agriculture is deflated. And whenever they increase that discount rate, why, the further it deflates agriculture.

Senator HOLLAND. What would you suggest that might remedy that situation?

You see, when it comes to borrowing money, all types of business are in competition with each other.

Mr. LACY. I think, sir, if they would curb this installment buying, make the terms shorter, the downpayment larger, I think it would do far more good than increasing the discount rate. I think people generally who have money, have just gotten out of hand in this country. They do not pay any attention to what the money costs them, just so long as they can buy the articles they want.

Senator HOLLAND. Of course, I do not know what caused the change in position, but you remember that the Federal Reserve Board did have quite a break on installment buying, within the past 2 or 3 years, something like that.

Mr. LACY. Yes, sir.

Senator HOLLAND. And you have heard about the hordes of locusts in the Bible?

Mr. LACY. Yes, sir.

Senator HOLLAND. That is the way the people who indulge in installment buying descended on the Federal Reserve Board. And, of course, there was an immediate resumption in buying on a very heavy scale as the restrictions were removed in various steps. I imagine that the Board has a hard job trying to adjust itself back and forwards so as not to have either inflation or deflation, but they try to keep us in a sound position, sort of in the middle ground. The trouble is—and there may be many other troubles that I do not know about—that businesses are not in the same situation. And agriculture does not happen to be creditwise in anything like as good a situation as most manufacturing businesses.

Mr. LACY. In other words, we are in the minority group now.

Senator HOLLAND. Of most of the trading businesses.

Mr. LACY. I think that is pretty well recognized now.

Senator HOLLAND. Perhaps it is that.

You may proceed.

Mr. LACY. I would like to make one further statement, and then I am through.

I think if this hearing runs true to form, sir, I believe you will have testimony before your committee by men and by a man who will re-write this bill in one night, when they have never had too much experience with production credit and farm credit, when these men that are presenting this bill have lived with production credit and farm credit for the past 20 years.

I believe that completes my statement here.

Senator HOLLAND. Well, now; just a moment on that.

I have sat on this committee when we took action to get away from public ownership of land banks, and then later, the banks of the co-operatives. And now I am sitting here looking into this particular last group, you might say. I have not sensed any smaller group than the whole Congress.

Mr. LACY. I was not speaking about Congress, either House of Congress, I was speaking about men who would testify before this committee.

Senator HOLLAND. Well, undoubtedly we will hear all points of view. Some of them are quite contradictory of the position that you have taken, but that has been true with reference to each of the bills. And we have come out with a pretty sound handling of each of them.

Mr. LACY. I appreciate that, sir.

Senator HOLLAND. I hope that we will do that well with this.

Mr. LACY. Those people, certainly, have a right to have their views; I understand that. But I was just trying to clarify my point, that this bill is not an overnight dream.

Senator HOLLAND. I know that full well. I know the people in our State have been working on it very diligently for a long while.

I hope that we can work out something.

We are very glad to have had you here.

Mr. LACY. Thank you very much for the opportunity to appear.

Senator HOLLAND. The next gentleman that we will hear from is Mr. Wayne Thomson.

STATEMENT OF WAYNE THOMSON, PRESIDENT, JENNINGS PRODUCTION CREDIT ASSOCIATION, JENNINGS, LA.

Mr. THOMSON. Mr. Chairman, my name is Wayne Thomson, and this is our secretary, Mr. Theriot.

I am one of the organizing stockholders and one of the organizing directors. I have been a director of the association for 23 years, during which time I have seen the system develop into a network of almost all completely farmer-owned credit agencies.

My association believes that the immediate consolidation of the production credit corporation and the Federal intermediate credit bank, in each district, will best serve the interest of our system for the following reasons:

PRODUCTION CREDIT CORPORATIONS HAVE SERVED THEIR PURPOSE

The production credit system was authorized by Congress in 1933, at which time, the production credit corporations 1 in each of 12 farm credit districts, were created for the purpose of organizing, capitalizing and supervising production credit associations.

We are grateful to this Congress for having created our system. We are equally grateful to the taxpayers and to the public who have absorbed the cost of maintaining these corporations.

We are pleased to report that a wonderful job was done in the organization of our associations. The capital that was loaned to us by the Government, through the production credit corporations, has almost all been returned. It is apparent then that two of the main objectives of the production credit corporations, namely, organization and capitalization, have been fulfilled, leaving only the task of supervision. It is reasonable to assume that the manpower requirements of the corporations with two-thirds of their functions removed, should be substantially reduced.

PCA'S ARE ORGANIZED IN DEPTH AND REQUIRE A MINIMUM OF SUPERVISION

Each production credit association is under the direction of a board of at least 5 members elected for staggered terms, thus insuring that the majority of the members on each board will at all times have served at least 1 term. Furthermore, each association has a manager, an assistant manager, and usually a treasurer. This assures trained personnel to assume managerial responsibility in event of necessity. With this type of organization and with 23 years of experience, we feel confident that only a minimum amount of supervision is required.

MANPOWER REQUIREMENTS DO NOT WARRANT A CORPORATE ENTITY

It is also a known fact, in our district, that the Federal intermediate credit bank and the production credit corporation are duplicating themselves in the supervision of the production credit associations, since approximately one-half of the manpower in the corporation is used to supervise the extension of credit, for which the final responsibility rests in the Federal intermediate credit bank.

Should this duplication be removed, the manpower requirements of the production credit corporation would be reduced to such an extent that the Production Credit Corporation of New Orleans could no longer justify its existence as a corporate entity and even less justify the continued investment of \$21¼ million of Government capital.

Furthermore, the duplication in the supervision by our Federal intermediate credit bank and our production credit corporation has made it difficult for the association to satisfy both. Our association has therefore concluded that it would be to the best interest of our stockholders and the taxpayers for these two institutions to be merged.

MERGER WILL NOT DISTURB FARM CREDIT

There are some who hesitate to disturb our present arrangement for fear of its effect on farm credit. May I hasten to remind you, gentlemen, that the production credit corporation and the Federal intermediate credit bank in each district are now under the guidance of a common board of directors and this same board of directors will direct the merged institutions.

Isn't it reasonable to assume, therefore, that the welfare of the associations will be as equally well entrusted in this board when the two corporations have been merged? This proposed consolidation

does not entail a complete reorganization of our system. The only immediate change will be that both corporations now existing separately under the direction of a common board, will merge under one roof under the directorship of this common board.

MANPOWER DISPLACEMENT WILL BE GRADUAL

It has already been established that there will be a very gradual displacement of manpower and that the retrenchment and the economies that we have envisioned will not be fully attained until probably 4 or 5 years. This is as it should be, but a merger must be accomplished first in order to permit a study of the manpower requirements of the merged institution.

Frankly, the merger itself will eliminate the following positions, in each of 12 districts, namely, 1 presidency, 1 credit department, and 1 staff of accountants. It is evidence that further changes will be gradual; therefore, to delay the effective date of this act, as suggested by some, would only be procrastinating. We therefore believe that the merger should be accomplished January 1, 1957, so that manpower studies can be instituted to accomplish a reduction in the cost of agricultural credit.

MERGER WILL STRENGTHEN OUR SYSTEM AND INCREASE FARMER PARTICIPATION

We are confident that there will emerge with the enactment of this legislation a much stronger and much more economical farm credit system. There will exist a national system of production credit associations owning 12 banks of discount, each of which will be directed by a district board, under an arrangement very much similar in every respect to the relationship that exists in the Federal Reserve System.

The 12 Federal intermediate credit banks, commonly known as banks of discount, will be strengthened by the acquisition of approximately \$39 million in additional capital which is now lying dormant as capital and surplus in the 12 production credit corporations.

For example, there is approximately \$3,423,721.08 of capital and surplus in the Production Credit Corporation of New Orleans, which will permit, after the merger, the extension of additional credit in our district in an amount approximately equal to 10 times this figure.

The merger will enable associations and their bank of discount to solve their credit problems by direct negotiations with association officials, who are naturally more familiar with their own problems than are the officials of the production credit corporation who have handled it heretofore. This should result in a more flexible system, thus enabling each association to formulate lending policies that will meet the needs of its locality.

We are here to assist in the enactment of proper legislation for our system of production credit associations and to show our appreciation to this Congress and to the public by supporting legislation that will relieve them of this financial burden. We want to suggest that provisions be made whereby the extent of this burden can ultimately be reduced through streamlining, for the benefit of the farmer-owned associations who will buy the merged institutions.

We believe that the legislation introduced by the Federal Farm Credit Board embodies the suggestions that we have made and we are therefore pleased to support it without reservation.

We thank you for the privilege of having appeared before you.

Senator HOLLAND. Thank you very much, sir. I do not believe I have any questions. That seems to be an all-out endorsement of the program.

Mr. THOMSON. Thank you, sir.

Senator HOLLAND. The next gentleman that I see listed here is Mr. L. D. Campbell.

Mr. CAMPBELL. I represent nine of the OFI's of Texas. Mr. Sartwelle is here with me. We would like, if it could be arranged, to defer our hearing until tomorrow. Some of our group is not here. They will be here tomorrow. If it can be arranged, as I say, we certainly will appreciate that.

Senator HOLLAND. Very well.

How about you, Mr. Watkins Johnston?

Mr. JOHNSTON. Mr. Chairman, I was just talking with Governor Tootell. There are 2 or 3 matters that I would normally like to talk with your committee about. He has permitted me to talk with him. I might be able to save myself and the committee some time, if I might do that.

Senator HOLLAND. Very well.

That means that we have carried over until tomorrow Mr. Watkins Johnston, who may not wish to appear; Mr. Campbell, and Mr. Sartwelle will probably both want to appear; Mr. Davis, who is not here at present; and Mr. Crouch, who is not here at present.

We have already scheduled for tomorrow 12 witnesses, so that apparently we have heard 12 witnesses today and will have 17 witnesses tomorrow, instead of having heard 17 witnesses today and having 12 witnesses for tomorrow.

Mr. CAMPBELL. Mr. Chairman, I will be glad to go ahead in the interest of saving time, if you desire.

Senator HOLLAND. That will be very well. That is very cooperative on your part, and we will hear from you now.

STATEMENT OF L. D. CAMPBELL, SECRETARY, OTHER FINANCING INSTITUTIONS COMMITTEE OF TEXAS, HOUSTON, TEX.

Mr. CAMPBELL. Chairman Holland, my name is L. D. Campbell, of Houston, Tex. I represent the nine Other Financing Institutions of Texas. Also, for the record, I am an officer and director and one of the individual OFI's known as the Houston Agricultural Credit Corp.

Without too much detail, I would like to mention in the beginning, and without boasting, that I have been in the credit field for the past 30 years, that is, the farm credit field, if you please.

I have a prepared statement here that I would present, but, if it is satisfactory, I will digress from that and add a few oral comments.

Senator HOLLAND. First, I notice that you have attached to your statement a list of the nine OFI's in Texas.

Mr. CAMPBELL. Yes, sir.

Senator HOLLAND. Do I understand that you represent them all?

Mr. CAMPBELL. Yes; I represent them all.

Senator HOLLAND. Without objection, then, I will have that list copied into the record at this point.

Mr. CAMPBELL. Fine.

(The list is as follows:)

Agricultural Livestock Finance Corp., 1102 Burk Burnett Building, Fort Worth 2, Tex.
 Commercial Cattle Loan Co., 306 Travis Building, San Antonio 5, Tex.
 Del Rio Wool & Mohair Co., Del Rio, Tex.
 Houston Agricultural Credit Corp., 903 Milam Building, Houston, Tex.
 National Finance Credit Corporation of Texas, 119 East Exchange Ave., Fort Worth 6, Tex.
 Producers Loan Co., Childress, Tex.
 Producers Wool & Mohair Co., Del Rio, Tex.
 San Antonio Agricultural Credit Corp., National Bank of Commerce Building, San Antonio 5, Tex.
 Wool Growers Central Storage Co., San Angelo, Tex.

Senator HOLLAND. You may proceed.

Mr. CAMPBELL. The nine OFI's of Texas are greatly interested in this pending legislation. In fact, they feel like they have a lot at stake. Eight of these nine OFI's have discounted loans with the Federal Intermediate Bank of Houston for the past 27 years; 2 of them have discounted their loans since 1923.

The company with which I am connected, the Houston Agricultural Credit Corp., was the first organization of this kind to use the facilities of the Intermediate Credit Bank of Houston. I believe the Intermediate Credit Bank of Houston was organized under the Farm Credit Act of 1923, in March of that year. Our company got the first loan in about the 1st of September. It has operated continuously for the past 33 years, right on through the depression.

Referring again to our individual company, we have about 1,000 stockholders who own all of the capital stock of our organization. They are farmers and ranchers up and down the gulf coast.

They vote and elect the directors of our company.

Mr. Sartwell, over here is one of the original directors and also a borrower.

They are substantial livestock men, substantial dairymen, substantial rice farmers. We even have a few cotton farmers that we finance.

We finance men who borrow \$1,000 and we finance men who borrow \$200,000. We are there serving agriculture and not just to make a profit.

I will say the same thing goes with most of the old line companies that I know anything about. They are there to serve agriculture. Certainly they must make a profit, because without a profit they would not be sound. But, in turn, the profits usually stay in the company, or are declared in dividends that are owned by the farmers and the ranchers.

Our company has paid dividends on our stock to our borrowers continuously since 1937. We have paid a stock dividend, even during the few years of the depression, when there was no money. The remainder of our capital, the total capital of over \$1 million is intact. It belongs to our farmers and ranchers, and that is true of a number of the OFI's in our State.

Senator HOLLAND. You do not mean that you are a cooperative?

Mr. CAMPBELL. We are cooperative in principle; yes, sir. Not all of the OFI's are cooperative, but our organization is, Senator Holland.

We were organized, based on the Federal land bank principle of stock ownership.

Senator HOLLAND. By a very minor reincorporation, you, of course, would be eligible to go ahead under this new law, would you not?

Mr. CAMPBELL. Well, I would certainly think so.

I worked for the production credit corporation from 1939 to 1952. I compared the two, and they are very much alike, production credit and the company I am with.

Senator HOLLAND. You would have the right to reincorporate as an association, if all of your stockholders are farmers and ranchers.

Mr. CAMPBELL. Yes.

The trouble with that, Senator Holland, under the present Farm Credit Act all of the territory over the United States has been allocated to some PCA. Every county in the State is incorporated in some production credit association. So there would be no room for the OFI's to join the PCA's.

Senator HOLLAND. All right, sir. Proceed.

Mr. CAMPBELL. Thank you.

In the beginning, in 1934, I was employed with the Federal Intermediate Credit Bank of Houston as a credit examiner. And then later I became connected with the Production Credit Corporation, where I worked for a number of years.

I am now employed with my previously mentioned firm, and have been so for the past 4 years.

The OFI's of Texas, of which I am secretary, have no fight to pick with the production credit associations. And in my experience, on both sides of the fence, I have found that there was and still exists much cooperation, for the most part, between the OFI's and the PCA's.

Senator HOLLAND. Are your OFI's books and operations subject to audit and investigation by the officials of the Farm Credit Corporation?

Mr. CAMPBELL. Yes, sir; the OFI's are examined by the examiners of the Federal intermediate credit banks each year. Every one must have an examination made. That examination consists of a capital structure examination, looking into their capital, their assets and liabilities, a checking of their stock requirements; and then they make an examination of each loan, classify each loan as to whether good, bad, or doubtful.

Senator HOLLAND. You do not have any top limit of lending, such as applies in the other case, do you?

Mr. CAMPBELL. We are subject to the same regulations as most PCA's are, that is, we can lend 10 to 1 of our capital. That is the law—10 to 1 is the amount of our capital that we can lend.

Senator HOLLAND. Is there any limitation as to the amount of any loan to one borrower?

Mr. CAMPBELL. No, sir. There is no definite limitation. I am not quite sure but I believe there is a law that if we lend any one person 50 percent of our capital stock, it requires the approval of the Farm Credit. I may be wrong on that, but I think that is correct.

Mr. MILES. That is correct.

On livestock loans, on other agricultural loans, it is 20 percent.

Mr. CAMPBELL. I had forgotten exactly the figures.

Mr. MILES. That is the regulation.

Senator HOLLAND. All right, sir.

Do you wish your statement placed in toto in the record.

Mr. CAMPBELL. I do wish that.

Senator HOLLAND. Do you wish to discuss any part of it, in particular?

Mr. CAMPBELL. Yes, sir; I would.

Senator HOLLAND. The statement will be placed in the record at this point.

(The prepared statement of Mr. Campbell is as follows:)

There are nine privately and cooperatively owned agricultural financing institutions in Texas which discount their loans with the Federal Intermediate Credit Bank of Houston. These are in addition to the production credit associations operating in the district. These loan companies are referred to as the "other financing institutions," or OFI's. We are naturally vitally interested in any legislation affecting the Federal intermediate credit banks which afford us our source of money. We respectfully present this petition urging that H. R. 10285, S. 3550 and the other pending bills be amended to allow the other financing institutions to participate in the purchase and ownership of the Federal intermediate credit banks on an equal basis with the production credit associations.

Since the beginning of movements throughout the country to change the status of the Federal intermediate credit banks we have been opposed to any legislation which would remove these banks from Federal supervision and control. It has been our feeling that as long as the fundamental laws under which the Federal intermediate credit banks operate remain constant, we had a substantial degree of protection against the possibility of losing these banks as a dependable source of discount. Nevertheless, we feel that if the banks shall ultimately become privately owned by the corporations having discount privileges with them, we would not be opposed to legislation in that direction if we are afforded equality of treatment with the production credit associations. Thus far, the bills which have been introduced do not afford us this equality of treatment in that we will not have the right to purchase capital stock of the Federal intermediate credit banks; we will not have the right of emergency participation in the revolving fund, nor will we have a vote in the election of members of the District Farm Credit Boards. These are all vital elements and should not be accorded to just one segment of the patrons of the banks. We do not feel that the ownership of the Federal intermediate credit banks should be limited to any segment of its patrons. To do so would certainly place the other users of the banks in an unequal position.

We would like to present a few facts in support of our position and in justification of the reasons why there should be no discrimination between our institutions and the production credit associations. As of March 31, 1956, the 9 other financing institutions of Texas had a combined capital and surplus of \$5,480,648 and had loans totaling approximately \$20 million discounted with the Federal Intermediate Credit Bank of Houston. This amounts to about 22 percent of the total outstanding loans of that bank. We do not have the figures available for the other financing institutions in other sections of the country, but we are reliably informed that the OFI's in the 12th Farm Credit District at Spokane, Wash. (including the States of Washington, Oregon, Montana, Idaho and Alaska) account for 35 to 40 percent of the Federal Intermediate Credit Bank's annual volume of loans in that district. We also understand the OFI's have a substantial volume of loans discounted with the Federal Intermediate Credit Bank of Berkeley, Calif.

Eight of the 9 financing institutions for which we are speaking have been discounting with the Federal Intermediate Credit Bank of Houston for more than 27 years, and 2 of these institutions have been discounting with that Bank since it was organized in 1923. The other financing institutions all over the country were, for the most part, organized and served agriculture for 8 to 10 years prior to the organization of the Production Credit System (Farm Credit Act of 1933), and have contributed in a proportionately large measure to the \$52,566,642 (as of December 31, 1955), of accumulated surplus, reserves, and undivided profits of the 12 Federal intermediate credit banks.

The institutions for which I speak have a history of successful operations and continued growth of many years, serving the agricultural needs of their patrons

in good times and bad. They have eloquently demonstrated their worth to the farmers and ranchmen who have availed themselves of their services, and have earned a place of permanence in the Farm Credit System which should be equal in all respects with that of the production credit associations. We therefore feel that we are entitled to equality of treatment under the pending legislation and urge that H. R. 10285, S. 3550 and any other bills of a similar nature be amended in the following respects:

1. To enable the other financing institutions to purchase the capital stock of the Federal intermediate credit banks on the same basis as the production credit associations. Control goes with ownership and we certainly feel that we should be allowed to share in the purchase of the banks, particularly since the other financing institutions have played an important part in the growth of the banks over the years. In addition, participation by the other financing institutions in the purchase of the bank's capital stock would spread the burden and enable the Government capital to be retired at a faster rate.

2. To enable the other financing institutions to vote for the two directors of the district Federal intermediate credit banks on the same basis as the production credit associations. This can be accomplished by allowing the 2 such directors to be elected by the stockholders of the bank on the basis of 1 vote for each share of the capital stock of the Federal intermediate credit banks of the district owned by each such stockholder, instead of the method of election now provided by law.

3. To permit the use of the revolving fund by the Governor of the Farm Credit Administration to subscribe to the capital stock of the OFI's discounting with the Federal intermediate credit banks in times of stress or emergency, on the same basis as he is now permitted to subscribe to the capital stock of the production credit associations, and under regulations promulgated by him.

It is our feeling that by reason of the important position held by the other financing institutions in the agricultural lending field and the marked contributions made by them during the past 33 years in the establishment, development, and successful operation of the Federal intermediate credit banks, we should have nothing more or less than equality of treatment with the production credit associations.

Senator HOLLAND. You may proceed.

Mr. CAMPBELL. About this earnings proposition: The OFI's, as you know, use the services of the credit bank, and from 1923 to 1933, the credit bank accumulated a nice surplus of earnings amounting to something over \$730,000. This was made during a period of time when the OFI's were loosely organized.

When the credit banks were created in 1923 there was no Government help in any way in organizing the OFI's. They were not even publicized. They, the OFI's struggled along during 10 hard years, and even into the depression years, which were very trying.

I believe Governor Tootell has testified that there were some 1,200 OFI's organized, and most of them have passed by the wayside. There are several angles to that situation.

Among those 1,200 OFI's were a number of temporary livestock and crop loan organizations that were set up to meet an emergency caused by the depression.

For instance, during the depression I lived in a small town in west Texas. Our county organized what we called the Dickens County Agricultural Credit Corp. It was organized by the local banks, by the mercantile firm with which I was connected as a credit man, and some of the merchants, to bail out, to unloosen frozen credit in that territory because of drought and because of depression prices.

That organization lasted about 4 years. They used the facilities of the credit bank.

After the crisis was over, they paid off their stockholders with a dividend and ceased business.

That was multiplied by hundreds of times all over Texas, I know, and, I am sure, all over the United States.

Senator HOLLAND. Did they borrow from the intermediate credit banks?

Mr. CAMPBELL. It was set up for that purpose, to borrow from them. The banks were there and they heard about it. Somebody told them about the credit bank at Houston. So they organized just for that purpose, to tap that source of money.

Later on, of course, the PCA's came into being, and they have done a fine job. Certainly we are not here to take any credit away from the production credit system. There is a place, a wonderful place, for the PSA's.

We think also there is a gap and a need for the OFI's, because altogether, we have one purpose—to serve agriculture.

We cannot agree with Governor Tootell's statement fully that the PCA's have had an umbrella over the OFI's from 1933 to the present time.

The OFI's have attempted to do their part. I believe they have done a better job since 1953 than they did from 1923 to 1933.

In the reverse, however, between 1923 and 1934, the OFI's kept the credit banks alive and paved the way, more or less, for the PCA's to come in.

Certainly we offer no objection to the PCA's to come in and lend money anywhere they want to. We needed help. And in 1933, when the farm credit bill was enacted, the production credit corporations were organized, and they went over the country with \$120 million and said, "Let us organize a PCA. We will help you do it." They offered no objection to that.

But in the previous 10 years, the OFI's did not have that help in any way whatever.

During this period from 1923 to 1933 the FICB, the intermediate credit bank of Houston, accumulated reserves, paid-in reserves, of \$730,000. That was after paying each year 25 percent franchise taxes to the Government for the use of that money. And since then, as the Governor has testified, there has been about 20 percent of the surplus and reserves in the credit banks accumulated from the patronage of the OFI's. That figures, I believe, roughly around \$10,500,000, which the OFI's, of course, have contributed to the Federal intermediate credit bank system.

The OFI's do not want Government help. The OFI's are well pleased with the intermediate credit bank system. We do not want to disturb it.

Our position all along has been that we would like to see the credit banks continued as a place of discount for all, but if it must be changed, then we are asking for only a human right of coming in on an equal basis with the production credit associations, to help buy the home we helped establish 10 years before the PCA's were organized.

We are asking for three things principally: First, we are asking for the right to purchase stock in the intermediate credit banks on the same basis as the PCA's. Then we are asking for the right to vote, the right of franchise, that good old American principle that we have all learned to love, the right to cast our vote. Certainly, we will be in the minority, but by casting our vote for the directors, the two di-

rectors that will be on the Board, we feel that we will have some representation. We realize our vote will not swing the thing or cause anything to be changed, but yet we will have some representation.

And we all know that control goes with ownership.

The third thing we are asking is to participate in the revolving fund, to allow the Governor in times of stress to put some money, if necessary, in the OFI's, or to buy stock in the OFI's, in case of emergency. That is the privilege that the OFI's, of course, have never enjoyed, and the OFI's have not asked for it, and I think the OFI's would be willing, even now, to forego participation in the revolving fund if they were given the right to buy stock and to vote because, after all, this \$10,500,000 in the capital of the credit bank is doing a wonderful job and will do good for years to come. We could leave it there, for posterity to use.

I could go on and talk a long time. I will cut this brief, however.

I will say this: Someone said that the PCA's are not receiving special treatment over the OFI's. Now, there is one thing I would like to bring out..

Under the present system, both the PCA's and the OFI's pledge their bonds—Government bonds—with the credit bank as security behind their line of credit. That is customary; that is the requirement.

For instance, our organization, our loan company, has \$541,000 in Government bonds. That is pledged with the intermediate credit bank at Houston. But if we need some money to operate in our local funds, to tide us over—maybe sometime we will have a few loans the credit bank will not accept—we cannot borrow against those bonds, although they are pledged with the credit bank.

Since the beginning, the PCA's have borrowed direct from the credit banks on their bonds, and they did not need to go outside and borrow funds. They could borrow from the credit bank up to 100 percent of their bonds, pledged with the bank. As example, a PCA had bonds totaling \$500,000, they could prepare a note, signed by the president and the secretary, sent it to the credit bank and get a check back for the \$500,000 and carry the loans in the funds that the bank would not take. By the same token, we would have to go on the outside and borrow a little money once in a while to carry some loans the bank would not accept because we could not borrow against our bonds. There is a little discrimination there already.

But all in all, we have no fight to pick with the PCA's. We like them. There is a place for us all.

With that, I want to thank you for the time you have given me.

Senator HOLLAND. Of course, your business is more selective than is that of the PCA's, is it not? You do not have to serve anyone who comes in.

If the size or the location or the reputation for doing business, or anything like that, or if any detail of the applicant's record fails to impress you, you do not have to do business with that particular applicant, do you?

Mr. CAMPBELL. That is right. And I believe the PCA's operate the same way. They have to go only on credit principles. I am sure they turn down—in fact, I know they do, because I worked for them for years; they turn down—loans on the same basis that we turn them down; absolutely on the same basis.

Senator HOLLAND. I remember last year we had the number, for instance, that were shown to have been served by the OFI's, or some of them. The number served was much smaller, and the average amount of loan much larger than was the case with the PCA's.

Mr. CAMPBELL. That is correct.

Senator HOLLAND. They had some showing from a Texas concern and one from a concern that was lending out in the Nevada-California area.

Mr. CAMPBELL. That is true. A lot of the OFI's, serve principally in the livestock country. Two-thirds of ours serve in the country where they have principally large loans, and they become specialists in the handling of large loans. For instance, in our case, however, we are on the gulf coast. We handle all types of loans.

Senator HOLLAND. Now, what about the rate of interest charge?

Mr. CAMPBELL. The interest is the same as the PCA's.

For your information, anyone who discounts loans with the intermediate credit banks, PCA's or OFI's, must submit a statement on each loan, saying they have not charged the borrower more than 4 percent above the cost of money. That confines it to a somewhat narrow field.

There are variations. Some charge 5, some charge 5½, some charge 6.

Most OFI's charge from 5 to 6 percent. We charge 6 percent; that is, at the present time. There is a variation even among the PCA's.

I know those large loans in west Texas charge 5 percent, and the ones in east Texas charge 6 percent, and perhaps more in some cases.

Senator HOLLAND. I see the 3 points you are pressing for, and I understand the first 2 pretty well, but the third one, it seems to me, goes considerably afield.

You would permit the Governor of the Farm Credit Administration to use the revolving fund to subscribe to the capital stock of the OFI's discounting with the Federal intermediate credit bank in times of stress or emergency on the same basis as he is now—

permitted to subscribe to the capital stock of the production credit association, and under regulations promulgated by him.

Do you mean that the OFI's should be entitled to have the same proportionate amount of new capital available in times of stress or emergency as is the case with the PCA's, which are part of the Farm Credit Administration?

Mr. CAMPBELL. Here is the thinking on that, Senator Holland. The OFI's thought quite a bit about that No. 3. And they kept thinking about that accumulated reserve surplus the past 33 years; not wanting it, but wanting it to be in some fund.

We could not think of any other way whereby we might have something available in case of a long drought or lower prices because, goodness knows, we are in low prices now.

Another angle is this: Some of the money that is now in the revolving fund is Government money. We know that. The production corporation reserves that they have earned are direct Government money. For instance, when the production credit corporations were organized the \$120 million was taken to the country. For instance, the corporation in Houston, where I worked, kept \$9 million of that money. They passed, I believe, \$6 million of it to the country. They

kept \$3 million in the Houston office, and invested that \$3 million in Government bonds. The interest from the Government bonds was used for expenses to the tune of about \$120,000 a year.

And then, in turn, some of the bonds began to go up. And that corporation—I am sure others as well over the United States—made a very nice profit on Government bonds, which went back into the surplus.

That all originally came from Government money. That is not our fundamental reason why we think we are entitled to the revolving fund, but that enters into it.

Senator HOLLAND. How does that enter into it?

Mr. CAMPBELL. Because it is still Government money. We feel, since we are serving agriculture, and by reason of having contributed our part to the credit bank reserves, and the Government money being available over here, that we should have some right to tide us over on capital which we have not had in times of stress and need to better serve agriculture.

Senator HOLLAND. You still would not be part of the farm credit corporation. You would make some loans that you finance through the Farm Credit Administration and other loans which you would not finance in that manner. You would be a private enterprise.

Mr. CAMPBELL. Yes, sir.

Senator HOLLAND. Except for the fact that you would have the right to rediscount that portion of your business which the intermediate credit bank is willing to take—to rediscount that part through them.

Mr. CAMPBELL. Let me say this, Senator Holland: I believe that OFI's, for the most part, would be willing to assume the burdens and responsibilities if allowed to participate in the system as a whole along with the PCA's.

Senator HOLLAND. Do you mean you would be willing to have a directorate made up of representatives as the PCA does—representatives of various groupings—that you would be willing to have your business confined to loans which you would rediscount with the intermediate credit bank—that you would be willing to transact your business solely and exclusively with the Farm Credit Administration?

Mr. CAMPBELL. I think we come under most of those requirements now. We do very little discounting of loans, that is, our group, on the outside. We have one company that occasionally will discount a loan with a bank, but it is only for a short term. But I think all of the OFI's—and I have examined every one of them when I worked for the credit bank—use the credit bank solely as the discount bank, and if they cannot get their loans discounted there, they do not discount them anywhere else.

Senator HOLLAND. You could move a certain amount of loans in your own hands which you do not have to rediscount.

Mr. CAMPBELL. The PCA's do the same thing. They borrow this money I was speaking about a while ago on the bonds, and they carry that loan in their own loan fund. The OFI's do the same thing.

Senator HOLLAND. The people who do business with you, do they acquire any portion of your business?

Mr. CAMPBELL. They purchase our stock in our particular company. And they get the dividends.

Senator HOLLAND. That is a cooperative. That is not true with most of the OFI's; is it?

Mr. CAMPBELL. I can say this is true for three of our largest organizations. They are somewhat on that basis.

Senator HOLLAND. Is that under the State law?

Mr. CAMPBELL. Yes, sir; we are under a State charter.

Senator HOLLAND. That is, of course, a different thing from being incorporated as part of the Farm Credit Administration.

Mr. CAMPBELL. That is correct. That is the way they were organized in the beginning. The original charter of the Farm Credit Act of 1923 provided that the banks were to take care of agriculture on a broad basis. There was no select group. It stated any agricultural corporation, or any other agricultural lending agency, meeting their requirements were entitled to use the bank's services. And they were pretty rigid. That is the reason the commercial banks would not take advantage of the credit banks all of these years. Most banks were not willing to say, "We have not charged this borrower more than 4 percent above the cost of this money."

Senator HOLLAND. Do you rediscount any of your paper with commercial banks?

Mr. CAMPBELL. No, sir. One company in our nine does that occasionally. I think that requirement could easily be met by most of the OFI's. I am not positive on that, but I am pretty sure that most of them could qualify under that.

Senator HOLLAND. The question is whether it is desirable to do that. Certainly I have no intention to exclude farm credit as to public credit.

Mr. CAMPBELL. I think if the OFI's could borrow on their bonds that they have pledged with the credit bank, a direct loan the same way as the PCA's, they would not need to borrow on the outside.

Senator HOLLAND. All right, sir; thank you.

Mr. CAMPBELL. Thank you.

Senator HOLLAND. I believe that takes care of the witnesses whom we have here this evening. Oh, you desired to be heard. Come forward.

STATEMENT OF BARNEY SMITH, PRESIDENT, NASHVILLE PRODUCTION CREDIT ASSOCIATION, NASHVILLE, ARK.

Mr. SMITH. Mr. Chairman, we will not take but very little of your time. We are all from Arkansas.

Senator HOLLAND. Which one will lead off?

Mr. SMITH. I will. I am representing the Nashville Production Credit Association. We have a membership of about 1200. I am the president.

We are a very small organization. Instead of talking in terms of millions I am going to talk in terms of hundreds of dollars.

Senator HOLLAND. I can understand that quite well.

Mr. SMITH. We are very fortunate to have the PCA. We appreciate them very much.

Our volume of business is anywhere from \$800,000 to \$1 million a year.

We loan money on peaches, cotton, corn, cattle, turkeys, broilers and many other small items. It is well diversified.

I have been on the district committee for several years.

I have been president of the National Production Credit Association for 20 years. I acted as chairman at the last meeting in Arkansas in the first part of April.

At this meeting we failed to accomplish very much.

Some 12 months ago all of the associations in Arkansas were against consolidation except one. That was Texarkana.

At this meeting, and from the information I have since this meeting, we have now 7 that I know of that are in favor of consolidation; 5 that I know definitely are against consolidation; and 3 that I do not know where they are.

I personally took the lead in opposing the consolidation, of opposing the proposed bill, but since we have studied the bill and gone over it and attended these meetings, I have changed my mind. I am quite sure the 7 that I referred to are all in favor of the bill. They have expressed themselves to me personally. We think it is a good bill. We would like to see it passed.

We would like to stop the confusion. At our meeting in Little Rock we failed to get a vote because it broke up in confusion. We were unfortunate.

We had two or three gentlemen that would not agree to a compromise. And so we never were able to get a vote.

Senator HOLLAND. We have 96 of them here in the Senate. [Laughter.]

Mr. SMITH. We do not have any OFI's down there to contend with. We are getting along pretty good.

As I said to begin with, we appreciate the production credit associations. We appreciate Congress giving us that bill many years ago. Had it not been for the production credit associations, I do not know what we would have done in Arkansas.

Senator HOLLAND. Now you are for this bill?

Mr. SMITH. Now we are for this bill, S. 3564. And we urge you to pass it, to submit it and pass it as soon as possible.

Senator HOLLAND. Thank you very much, Mr. Smith.

Mr. SMITH. Thank you.

Senator HOLLAND. We will now hear from Mr. Young.

STATEMENT OF M. G. YOUNG, LONOKE PRODUCTION CREDIT ASSOCIATION, CARLISLE, ARK.

Mr. YOUNG. Mr. Chairman, I just want to make a very brief statement on production credit.

I am a director and connected, also, with the farm and some other businesses. I know how important it is to save.

Senator HOLLAND. Which one of the associations are you with?

Mr. YOUNG. I am with Lonoke Association. We do about \$3 million volume.

The reason I am for the bill is simply because we feel like the bill is one that means that we need to save every dime we can. We are in a price squeeze.

We have banks. Some people say, "If you have banks, then they can do the function. Why not let them have it?"

But the problem is that they take the good loans, and the farm credit that needs to be served out in our part of the country is not serviced. So we have to take some of all.

We know we are in a competitive position. We have to pay interest.

We think this bill is a good bill and because it will save money. That is what we need to do.

We are getting $5\frac{1}{2}$ and paying a pretty high rate of interest. So we are in a kind of price squeeze. It is hard for us to make money on it. If we can cut off one-eighth of 1 percent or one-quarter or any amount that we can cut off the operating cost, we think it is good business to do it. We are for the bill.

Senator HOLLAND. You want to reduce expenses. You want to retain a service that takes care of farmers who are average credit risks.

Mr. YOUNG. Bad and indifferent, and so forth.

Senator HOLLAND. From average credit risks to the greatest?

Mr. YOUNG. Of our entire community. The only way we can do it is through production credit.

Senator HOLLAND. I think that makes sense. I think that is a good statement. Thank you.

Mr. YOUNG. Thank you.

Senator HOLLAND. We will next hear from you.

STATEMENT OF J. E. TULL, SECRETARY-TREASURER, LONOKE PRODUCTION CREDIT ASSOCIATION, LONOKE, ARK.

Mr. TULL. Mr. Chairman, my name is J. E. Tull. I am secretary-treasurer of the Lonoke Production Credit Association.

I just want to say I support what Mr. Young and Mr. Smith have said.

We certainly favor this merger of the two institutions.

Senator HOLLAND. You gentlemen, apparently, do not live in the same community, but you do belong to the same association, is that it?

Mr. SMITH. I am in southwest Arkansas and they are in northeastern Arkansas.

Mr. YOUNG. That is right, in the rice section.

Senator HOLLAND. Do you have any rice and ducks?

Mr. TULL. We have lots of ducks.

I would like to ask this: We are badly disturbed about the high cost of money. We pay $3\frac{1}{4}$ percent interest for our money at the Intermediate Credit Bank whereas last year we were paying $1\frac{3}{4}$ percent.

Since our farmers are in a tight squeeze, it is quite a hardship for them.

Senator HOLLAND. You are for the measure as it is presented?

Mr. TULL. Yes, sir.

Senator HOLLAND. Gentlemen, I appreciate your brevity. I think that you have made your positions perfectly clear. And I am glad that you went on this afternoon.

Mr. SMITH. Thank you.

Mr. YOUNG. Thank you.

Mr. TULL. Thank you.

Senator HOLLAND. Mr. Sartwelle.

Mr. SARTWELLE. To be perfectly frank, I want to leave this up to you. I will go on this afternoon if you desire, or tomorrow morning. My statement is not short.

Senator HOLLAND. Suppose that we recess, then, until 10 o'clock tomorrow morning.

Mr. SARTWELLE. Yes, sir.

Senator HOLLAND. Thank you.

We will recess then, now, until 10 o'clock in the morning.

(Whereupon at 5:10 p. m., the committee adjourned to reconvene at 10 a. m., Tuesday, April 24, 1956.)

FARM CREDIT ACT OF 1956

TUESDAY, APRIL 24, 1956

UNITED STATES SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT AND
ELECTRIFICATION OF THE COMMITTEE ON
AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to recess, at 10:10 a. m., in room 324, Senate Office Building, Senator Spessard L. Holland, presiding.

Present: Senators Holland (presiding), Humphrey, Scott, Mundt, and Schoeppel.

Senator HOLLAND. The subcommittee will please come to order.

A great many statements have been submitted for the record, including a few formal statements and a good many wires and letters. They will also be inserted in the record at the close of the hearing.

Do either of you Senators have anyone that you wish to call first?

Senator SCHOEPEL. So far as I am concerned, following the list is O. K.

Senator HOLLAND. First we will hear from Mr. Rappaport.

STATEMENT OF PERCY RAPPAPORT, ASSISTANT DIRECTOR, BUREAU OF THE BUDGET

Mr. RAPPAPORT. Mr. Chairman and members of the committee, I am appearing this morning before your committee in response to a telephone request of April 20, 1956, to the Office of the Director of the Budget from Mr. Mouser, clerk of the Senate Committee on Agriculture and Forestry, requesting me to testify with regard to the position of the President on the proposed farm-credit legislation on which hearings are currently being held by this committee. I appreciate the opportunity to come before this committee to present the President's position in this matter.

In his farm message of January 9, 1956, the President said that legislation would be proposed to combine the production credit corporations and the Federal intermediate credit banks. A draft of legislation to accomplish this objective in a way that is in accord with the program of the President has been introduced, by request, by Senator Ellender as S. 3550. I shall refer to this bill as the administration bill.

Two other bills introduced in the Senate which are similar in many respects to S. 3550 are not entirely in accord with the program of the President. These are S. 3549 and S. 3564. To simplify my presentation as much as possible I shall confine my discussion to the differ-

ences between S. 3550 and these two bills. Specific references will be to S. 3564.

Senator HOLLAND. If you will let me intervene at that point—I think that is the wise course, because S. 3564 presents the last-sought modifications from the Farm Credit Board.

Mr. RAPPAPORT. Yes, sir.

Senator HOLLAND. And so far as I know there has been no request for changes since that S. 3564 was introduced.

All right; proceed.

Mr. RAPPAPORT. At the outset I shall sketch briefly the backgrounds of the two bills. S. 3564 is substantially the draft legislation as submitted to the Bureau of the Budget by the Federal Farm Credit Board for advice with regard to its relation to the program of the President.

S. 3564 is identical with S. 3550 except for certain modifications to bring it into accord with the program of the President. These modifications are designed to protect the Government's financial interests in the merged institutions and to provide for effective budgetary control during the transition to private ownership.

These two bills differ in three principal respects. The three points of difference are set forth, with the reasons therefor, in a letter of March 14, 1956, from the Director of the Bureau of the Budget to Governor Tootell of the Farm Credit Administration, a copy of which is submitted for the record.

(The letter, dated March 14, 1956, is on p. 13.)

Mr. RAPPAPORT. In that letter the Federal Farm Credit Board was authorized to forward to the Congress a copy of the bill proposed by the Board (introduced as S. 3564), together with a draft approximately amended to reflect the changes required to bring the Board's bill into accord with the program of the President.

That letter also included an attachment summarizing certain suggested amendments proposed by interested Federal departments and agencies which the committee may wish to consider. These suggestions have not been incorporated in either of the bills.

The first point of difference relates to the distribution of the assets of the Federal intermediate credit banks in the case of liquidation or dissolution. Section 206 (c) of S. 3564 provides that upon the liquidation of any Federal intermediate credit bank any portion of the surplus and reserves of the bank existing on the effective date of the new legislation that remains after payment of all liabilities and retirement of all stocks and participation certificates at par would be prorated among existing stockholders of the bank.

At the end of 1955 the combined surplus and reserves of the Federal intermediate credit banks and the production credit corporations amounted to approximately \$63 million. Under the Administration bill (S. 3550) the remaining portion of such surplus and reserves would be paid, in the event of liquidation as now provided by law, into the Treasury as miscellaneous receipts.

The Administration bill thus would permit the Federal intermediate credit banks to retain for use as a subsidy in their operations the Government capital represented by the surplus and reserves of the banks as of the effective date of the legislation, but would require its return to

the Treasury if any of the banks should be liquidated and therefore no longer have a need for it.

This would retain for the Federal Government only the contingent claim against the assets of the Federal intermediate credit banks that is already provided for by law, whereas the provisions of S. 3564 would shift this contingent claim in the event of liquidation to the stockholders of the new Federal intermediate credit banks.

Since the assets represented by these surplus and reserve funds were built up over a long period of years—a third of a century, in fact—and since the Government would have had to bear any losses if the Federal intermediate credit banks had not been a financial success, there does not appear to be a sound basis for the outright transfer of these funds to the production credit associations.

In fact, a strong case could be made for the retirement of this Government capital as part of the general plan for the purchase of the Federal intermediate credit banks by the production credit associations.

The second point of difference is with respect to the extent of budgetary control of the Federal intermediate credit banks after the merger. The Administration bill would leave these banks in the same status as at present with respect to the applicability of the budget provisions of the Government Corporation Control Act.

S. 3564 would exempt these banks from the budgetary provisions of that act and would provide specifically that—

After the effective date of this act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other act of Congress governing the expenditure of appropriated funds (sec. 201 (b)).

The justification for retaining the status quo with respect to budgetary control is the probability that the Federal Government would continue to have a very heavy financial interest in the intermediate credit banks.

With the acquisition by the Federal intermediate credit banks of the Government capital of the production credit corporations, the total Government capital in the Federal intermediate credit banks would be larger than at present.

This in itself argues strongly for retention of present budgetary controls. It should be noted also, that in no case since the enactment of the Government Corporation Control Act has a wholly owned Government corporation been exempted from the budgetary provisions of that act when provision was made for retirement of its capital.

The acts authorizing retirement of Government stock in the Federal Savings and Loan Insurance Corporation and the Federal National Mortgage Association specifically provide for the retention of budget control by the President and the Congress. There does not appear to be any special circumstances that would justify a different policy in this case.

SENATOR HOLLAND. At that point let me ask, is there any difference in this particular item, between this legislation and the legislation under which the Federal land banks have already gone to private ownership, and the legislation under which the banks for cooperatives are moving toward private ownership?

Mr. RAPPAPORT. I personally cannot answer that question, but one of my associates here would be glad to do that.

Mr. Harold Seidman.

STATEMENT OF HAROLD SEIDMAN, BUREAU OF THE BUDGET

Mr. SEIDMAN. If I may, Mr. Chairman, I think part of the explanation is a historical one in the history of the Government Corporation Control Act.

Senator HOLLAND. I do not think you heard my question. My question was: Is there any difference between the particular provision of the pending measure and the similar provision of the measures under which the Federal land banks had already gone to private ownership and control and the banks of cooperatives by legislation passed last year were moving in that direction?

Mr. SEIDMAN. There is no essential difference although I would say there is a significant difference between the status of the Federal intermediate credit banks under this bill and the present status of the Federal land banks.

For example, there is no longer a Government revolving fund maintained for putting back Government capital in the land banks, and serious consideration is now being given—I think the Farm Credit Administration has indicated approval of the Hoover Commission recommendation that the authority of the Federal Farm Mortgage Corporation to lend \$500 million to the land banks be discontinued.

So that so far as the land banks are concerned, there will be no direct call on Federal funds in the future, which I think is a very substantial difference between Federal land banks and the Federal intermediate credit banks.

Senator HOLLAND. What is the provision in the law under which the Federal land banks have moved to private ownership that corresponds to this particular provision in the pending legislation?

Mr. SEIDMAN. I don't exactly understand the question.

Another significant difference is that under the land bank legislation, the immediate effect was to reduce the amount of Government capital stock. Under the proposed bill the initial effect is to increase the amount of Government-owned capital stock in the intermediate credit banks.

Senator HOLLAND. You are still missing the point. What I want to do, if possible, is to have the record show by way of comparison the provision in the land bank legislation under which private ownership and control has already become effective that corresponds to the provision that is being complained of in the second point mentioned by the witness, relating to such budgetary control.

Mr. SEIDMAN. Well, there was no provision for budgetary control in either the land banks or in the banks of the cooperatives.

Senator HOLLAND. And this provision, that the witness seeks to have placed in this bill, would be a different provision from the corresponding requirements of the two laws already on the books applicable to the Federal land banks and to the banks for cooperatives?

Mr. SEIDMAN. That is right.

Senator HOLLAND. That was the thing I wanted the record to affirmatively show.

Now, you may proceed with justifying that difference. That is what I understood you were trying to do.

Mr. SEIDMAN. Yes. I think part of the explanation is a historical one because the banks for cooperatives and the Federal land banks were mixed ownership corporations at the time the Government Corporation Control Act was enacted in 1945.

You will recall at that time, Mr. Chairman, few, if any Government corporations whether wholly owned or mixed ownerships, were under budgetary control or for that matter audit control.

The Government Corporation Control Act and the business-type budget procedures provided by that act were essentially experimental. Many of the wholly owned corporations at that time said that they would not be able to operate under the business-type budget procedures. It was essentially a compromise to exclude certain corporations which were classified in the act as mixed ownership under title 2, section 201, those were the Federal land banks, the banks for cooperatives, the home-loan banks and the Federal Deposit Insurance Corporation.

Senator HOLLAND. Then the statement of the witness really excludes the Federal Land Bank and the Bank for Cooperatives and the legislation applicable to them by confining itself to "wholly owned Government Corporations", is that correct?

Mr. SEIDMAN. This was in 1945. Since then I think as early as 1947 or 1948, the Appropriations Committee in a report specifically indicated that they regarded the exclusion of the banks for cooperatives and other mixed ownership corporations from budget control as a serious weakness in the Government Corporation Control Act, as long as they had a call on Federal funds, and could create Federal liability.

The policy as it has been followed, however, has not been to go back to amend what was done in the Government Corporation Control Act, but not to provide exemption from budget control in future applications. There have been two mixed ownership corporations created since 1945, that is the Federal National Mortgage Association and the Federal Savings and Loan Insurance Corporation, and in both of those cases the act specifically provides that budget control shall be continued.

Senator HOLLAND. Well now, the justification for this request number 2 is that the intermediate credit banks are wholly owned Government corporations, is that it?

Mr. SEIDMAN. No, not under the proposed bill. They would become mixed ownership corporations even though at the same time the amount of capital stock owned by the Government will increase.

Senator HOLLAND. I understand that.

Then this basing of this point upon the fact that in no case since the enactment of the Government Corporations Control Act has a wholly owned Government corporation been exempted from the budgetary provisions of that act when provision was made for retirement of its capital, really becomes inapplicable to this present situation when the new institutions come into being because they are mixed ownership institutions, are they not, and many of the institutions which would be merged into the intermediate credit banks are partly or wholly privately owned at this time, are they not?

Mr. SEIDMAN. No. The Production Credit Corporation—the only institutions being merged in the intermediate credit banks under the proposed bill—are wholly owned Government corporations.

Senator HOLLAND. Production Credit Corporation?

Mr. SEIDMAN. It does not affect the Production Credit Associations. The point in the testimony is that—and perhaps it is not as clear as it should be—is that in no case where a wholly owned Government corporation has been converted to a mixed ownership corporation as this bill provides for the Federal intermediate credit banks has budget control been discontinued.

Senator HOLLAND. What cases were there?

Mr. SEIDMAN. That was the Federal National Mortgage Association and the Federal Savings and Loan Insurance Corporation. The status of the Federal National Mortgage Association is comparable to that of the Federal intermediate credit banks under the proposed legislation.

A person who sells mortgages to the association has to purchase capital stock which is equivalent to 3 percent of the unpaid principal amount of mortgages that he sells. And it is intended that the association will ultimately come under complete private ownership in the same way as the Federal intermediate credit banks.

Senator HOLLAND. Well now, to simplify the record, if we can, your point now is that these new institutions are in a different class from the land banks and the banks for cooperatives, and that because of that you do not feel that the relaxation of Federal budgetary control that was involved as to those institutions should likewise exist in this case?

Mr. SEIDMAN. That would be correct. I think the approach that we would recommend is that you look not to the question of stock ownership as being the significant factor but the degree to which the banks can utilize Federal funds and to the degree of financial responsibilities undertaken by the Federal Government in connection with the operation.

It is because of the financial risk, regardless of ownership, that the Government needs to maintain budgetary control.

Senator HOLLAND. Is it your position then that these new institutions that will come into being, if this bill passes, should be kept under Government budgetary controls because they will have the right to borrow out of the very sizable Federal fund that is kept available for that purpose?

Mr. SEIDMAN. I think two points:

One, under the proposed bill the immediate effect is not to reduce the amount of stock investment by the Government. The stock investment in the intermediate credit banks as such goes up from about \$60 million to \$82 million; so you have a \$22 million increase of the Federal Government's stock investment initially.

Secondly, the money which is paid for retirement of the present stock in the intermediate credit banks, the \$60 million, exclusive of the amount of new stock exchanged for existing stock in the Production Credit Corporations, will be paid back not into the Treasury but will be paid back into a revolving fund where it will be retained for future stock subscription.

And under the Farm Credit Board proposed bill there will be a \$100-million revolving fund available for future Government capital investment in the banks which will be a Government contingent liability.

So the effect of the bill is not to relieve the Government of its financial obligations, with respect to the banks. In fact, initially it increases them.

Senator HOLLAND. Well, at what stage, if any, do you think the budgetary control by the Government should be surrendered?

Mr. SEIDMAN. When the Government stock is retired.

Senator HOLLAND. But not until then?

Mr. SEIDMAN. That is correct.

Senator HOLLAND. Even as it becomes a minor portion of the capital stock of the respective institutions you still think that the Federal budgetary control should exist?

Mr. SEIDMAN. Yes, because the amount will still—even though it is repaid, the money will be held for future stock subscription, so the Government liability will remain.

Senator HOLLAND. What you mean is that the money will be held in a pool where it will be available, but you do not mean that it will be held in the account of the corporation?

Mr. SEIDMAN. No, it will be held in a revolving fund for resubscription by the Governor of the Farm Credit Administration. It will not go back into the Treasury as miscellaneous receipts.

Senator HOLLAND. But it will be a Federal fund and completely under Federal control, will it not?

Mr. SEIDMAN. It will be earmarked Federal funds—it will not come under Federal control as it would be if it was paid back into miscellaneous receipts.

Senator HOLLAND. It is not your contention, however, that the new corporations would have control of that revolving fund or pool?

Mr. SEIDMAN. They would not have control over it. Certainly if they needed new capital, I don't think there would be any difficulties in their obtaining it from the fund. The fund was created for that purpose.

Senator HOLLAND. What it amounts to is that a revolving fund would remain available as a source for stepping up of capital investment from the Federal Government in the event the conditions of the bank became such as to require new capital?

Mr. SEIDMAN. That is correct.

Senator HOLLAND. All right. You may proceed, sir.

Mr. RAPPAPORT. The third and final point of difference is with respect to the amount of the two revolving funds to be available for investment by the Federal Government in the stock of the production credit associations and the Federal intermediate credit banks.

As in the case of the two preceeding points, the administration bill would retain the status quo. The present level of the two funds is \$130 million. S. 3564 would raise the level to \$160 million.

No evidence has been presented to demonstrate the need for additional contingent investment by the Federal Government in these institutions. In fact, a good case can be made for merging the two revolving funds and thereby reducing the total below \$130 million. The proposed increase in the level of the revolving funds should be considered also in the light of the overall objectives of the legislation to retire Government capital.

I hope that this general explanation will help to make clear the reasons for the provisions in the administration bill which differ from those in S. 3564.

Senator HOLLAND. Thank you, sir.

Mr. RAPPAPORT. Thank you, sir.

Senator HOLLAND. Senator Schoeppel, do you have any questions?

Senator SCHOEPEL. No questions, thank you.

Senator HOLLAND. I believe that is all. Thank you, sir.

Mr. RAPPAPORT. Thank you.

Senator HOLLAND. Mr. John J. Riggle.

STATEMENT OF JOHN J. RIGGLE, SECRETARY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. RIGGLE. My name is John J. Riggle, secretary of the National Council of Farmer Cooperatives.

We appreciate this opportunity to appear before your committee again, on this farm credit matter.

Since 1934, the National Council of Farmer Cooperatives has had a policy favoring the progressive increase in the cooperative nature of the farm credit administration agencies engaged in financing the sound credit needs of agriculture, with the systematic retirement of Government capital, and an increase in the participation of farmers in the capitalization, operation and management of the System, subject to the necessary Government supervision.

During World War II, activities under this policy were necessarily suspended, but beginning in 1946, the Council, together with other farm groups and credit agency representatives and members, became active again in analyzing and promoting measures to facilitate the cooperative credit program.

Their efforts were favorably considered by the Congress and as a result the Farm Credit Acts of 1953 and 1955 were placed on the statute books in partial fulfillment of the intent of Congress and the farm groups in the original establishment of the affected farm credit agencies.

Under these acts the overall Farm Credit Administration structure and the cooperative bank structure were oriented toward greater farmer ownership and participation in management; and the operating features of the land banks, farm loan associations and production credit associations were revised to make their operations more responsive to the credit needs of farmers, and to give farmers more representation in the organization.

There remain unfinished among other items, consideration of the organization, use, and disposition of the production credit corporations and the Federal intermediate credit banks.

Short term farm credit is agriculture's most vulnerable point in the whole rural credit structure. Approximately 75 percent of short term farm loans are held by commercial banks, who because of prior obligations to depositors, are not in a position to carry their loans during a prolonged period of recession when deposits decline and repayments slow up.

Failure of any substantial number of farmer borrowers to pay interest on short term loans or to secure extension of loans when due, can precipitate a cumulative liquidation of farm enterprises at forced sale prices, especially when commodity prices are declining.

A resulting decline in general business conditions and bank deposits in rural areas will still further restrict the local banks' ability to carry farm loans.

Recently the rediscount rates on commercial loans in the several Federal Reserve districts have been raised. This includes agricultural paper which is handled as commercial loans under Federal Reserve operations.

Actually most of this paper consists of credit covering commodities and given by handlers in the channels of trade, secured by warehouse receipts for nonperishable or processed farm products, and by farm equipment and supplies. Country banks are full of farmers' paper which the Federal Reserve banks do not customarily rediscount.

Important as handlers' and processors' credit is to the orderly marketing of farm products and the supplying of farmers through the channels of trade, it still leaves a vacuum in discount operations for short-term paper of farmer origin held by the country banks.

Hence, farm-production paper is most vulnerable to the credit restrictions which follow when rediscount rates of central banks are raised, as they have been recently.

In the early twenties and again in the early thirties, the credit restrictions in those periods forced the wholesale liquidation of agriculture and the country banks generally were taken over by the Government in the early thirties and many were liquidated because of the slowness of farm paper.

The worst thing which could happen to the American economy would be to precipitate or even allow the liquidation of farm values such as occurred then. Forty percent of the Nation's work force is employed to provide services and supplies for farm production and the farm home; and to produce, handle, process, transport and distribute farm foodstuffs, feedstuffs and fiber on the way to the consumer.

When the farmer is forced out of the market for production and consumer goods, he pulls these supported industries down with him, first in rural business areas and then in urban industry, greater in proportion than his use of their services and products.

Witness the recent heavy worker layoffs in the farm-equipment industry, due to farmers dropping out of the farm-equipment market because of reduced income.

Present farm-inventory values have not been tested by forced liquidation, because so far cash and credit resources of farmers have not been wholly exhausted, except in the case of young farmers, including veterans, who have financed farming enterprises during the post-war period of high farm capital and operating costs. Many of these are reported to be selling off their farm setups and many other farmers are seeking employment in urban areas to augment declining income.

Farmers of this country have operated in a period of high fixed costs and declining farm income since 1951. The ratio of prices received to prices paid declined from 100 in 1951 to 80 in December 1955. In 1929 before the economic debacle the ratio was 92.

Production expenses in 1954 were 3 times what they were in 1929 while net income was 2 times the 1929 level. Farm mortgage debt has increased 60 percent over the 1946 level, much of it recently to refinance production credit.

The point is that short-term farm credit is the most vulnerable part of the farm-credit structure and hence the Achilles heel of farm economy in time of stress; principally because farmer paper, held 75 percent by country banks, is the first to feel the pressure of credit restrictions imposed by the across-the-board policies of the Federal Reserve and commercial banking systems.

The most vital service the Federal farm credit system can provide for agriculture is to set up adequate facilities for the rediscounting and carrying of the farmer paper of which country lending institutions including production credit associations, country banks and other financing institutions are full; and to provide incentives so that those facilities are used by country banks and other financing agencies to carry agriculture over thin periods in the rural economy until farm values recover, as they always have done in due course; rather than to accept by default the situation under which the forced liquidation of farm production paper may proceed as it did in the disastrous thirties.

Such a discount facility would have to provide incentive for active participation by all lenders on short-term farm paper, both in its services and in the distributing of earned margins when and if available above operating expenses and returns necessary for capital formation.

We believe legislation should meet this problem head-on providing facilities for broad discount services and incentives for its use by short-term farm lending institutions.

Cooperative short-term farm credit agencies should have voting membership for election of production credit representatives on the district board; and nonmember participants, such as commercial banks and other noncooperative financing agencies, should participate in patronage refunds contributed to capital which are to be revolved after the Government capital has been retired out of earnings.

Likewise there should be, on liquidation or dissolution no discrimination between members and nonmembers in the distribution of surplus and other assets accumulated out of the patronage of different financing institutions, if this is to be a bona fide cooperative credit institution following established mutual principles.

We are seriously concerned that, through proper incentives and non-discriminatory policies, there may be provided for farmers through various intermediate channels a source of production capital of such availability and strength as not to require emergency measures to meet recurring farm-credit crises. Any proposed legislation should, we believe, be measured against such a standard, as well as that of cooperative ownership and control.

Since the income of intermediate credit banks for many years has been 90 to 94 percent from interest paid by borrowers, and the cost of necessary Government administration and supervision by the Farm Credit Administration has exceeded the income from investment in Government bonds, we see no validity in the premise that the Government has any interest in the surplus and reserves after the Government capital is retired. A franchised tax has been paid on the use of Government capital, and until the unlikely event of dissolution, except by act of Congress, the surplus and reserves should remain in the system without any continuing Government claim.

Likewise, until the future of the agricultural economy is more stable, we believe the retention of the revolving funds of the produc-

tion credit corporations and Federal intermediate credit banks on a reallocated basis is important in any legislation at this time.

We have no position on the merger of the production credit corporations with the intermediate credit banks and we are not authorized to endorse any bill before the committee.

Our agricultural credit committee felt that the question should receive our continued study. There was some sentiment that the present period in our farm economy may not be the right time to proceed to buy another bank and chance possible interest cost increases by subscriptions to capital and by the proposed merger.

However, we still favor appropriate legislation to provide for completing the mutualization of the farm credit system and orderly retirement of Government capital in the short-term credit system on a broad enough structure and authority to serve agriculture across the board and fill the vacuum in our present short-term credit discount facilities.

Senator HOLLAND. I call your attention to the last sentence in the middle paragraph on page 4 of your prepared statement, which reads:

Likewise, there should be, on liquidation or dissolution, no discrimination between members and nonmembers in the distribution of surplus and other assets accumulated out of the patronage of different financing institutions, if this is to be a bona fide cooperative credit institution following established mutual principles.

I judge that you mean that to apply to surpluses created after the new corporation is formed?

Mr. RIGGLE. Yes; that is right. That would apply to the future after the act goes into effect.

Senator HOLLAND. In other words, you feel that nonmembers should be represented as equitable owners of their pro rata share of any surpluses or reserves created after the new corporation begins to function?

Mr. RIGGLE. That was what is contemplated here.

Senator HOLLAND. In equitable distribution of reserve or surplus, upon liquidation or otherwise, you feel that the nonmember patrons have the same standing as the members?

Mr. RIGGLE. There are provisions in several—all of the bills, I guess, for what they call participation certificates, which would make all of them eligible for equitable treatment.

What we are saying is that we would go a little further with that, perhaps. Those financing agencies which are cooperative in nature become members. The other patrons of the discounting agency such as commercial banks and other financing agencies, not cooperative, would be eligible the same as the nonmember in any cooperative association for their pro rata share of the reserves that were kept for capital formation when they are revolved out. There should be some incentive for them to bring their business there and to do business with the discount agency.

Senator HOLLAND. It is my understanding that, because of the provision for the issuance of participation certificates to nonmembers after the date of the accomplished merger, January 1, 1957, your point is well taken care of in any reserves—as to any reserve or surplus created after that time.

What is your position with reference to distribution of the reserves now on hand and as to the equitable participation in those reserves?

Mr. RIGGLE. As far as the surplus and reserves now on hand on dissolution?

Senator HOLLAND. Yes; now on hand, as to how they should be distributed on dissolution—what the act should provide relative to the right to participate in that distribution if, as, and when there is a liquidation.

Mr. RIGGLE. We would have to apply the same principle, I am sure; the cooperative principle.

Senator HOLLAND. In other words, you see no justification for applying any different principle as to the funds which now constitute surpluses and reserves and to which, under the terms of the act, S. 3564, the Government would abandon any claim?

Mr. RIGGLE. No.

Senator HOLLAND. You see no reason for applying any different rule to that surplus and reserve than the one that would be applied after the new corporation begins to operate?

Mr. RIGGLE. We would have to stick to the same principle, I am sure.

Senator HOLLAND. Would you have to stick to the sound principles of cooperative mutuality?

Mr. RIGGLE. That is right.

Senator HOLLAND. Is that what you are stating here in your testimony?

Mr. RIGGLE. I do not believe that is stated directly—it says “on liquidation hereafter”—because we had not taken a position on either one of these bills. The matter had not been directly raised in our statement. But I am sure that the same principle would apply.

Senator HOLLAND. The thing I am trying to bring out is whether that quoted sentence out of your statement applies solely after the function of the new corporation begins or reaches back to apply also to the reserves and surpluses now existing.

Mr. RIGGLE. It was put in there to apply to the corporation as reorganized in order to provide an incentive for future participation of all short-term credit financing agencies.

Senator HOLLAND. But your statement, outside of your formal position, is that you see no justification for applying any other philosophy—

Mr. RIGGLE. We could not very well.

Senator HOLLAND (continuing). To the distribution of the reserves and surpluses on hand as to which the Government under the terms of this bill would abandon any claim?

Mr. RIGGLE. I don't see how we could.

Senator HOLLAND. And which would constitute a continuing cushion or reserve throughout the operation of the new concern to be distributed only upon liquidation?

Mr. RIGGLE. That is correct.

Senator HOLLAND. You would apply the same principle?

Mr. RIGGLE. We would have to, I am sure.

Senator HOLLAND. Participation of nonmembers on the basis of complete equity with members?

Mr. RIGGLE. Yes, sir.

Senator HOLLAND. Do you have any questions, Senator Schoeppel?

Senator SCHOEPEL. I would like to ask one question.

On page 4, first full paragraph, you say :

We believe legislation should meet this problem headon by providing facilities for broad discount services and incentives for its use by short-term farm lending institutions.

I would like to ask, since you have studied this legislation, Is it your considered judgment that this legislation would restrict the facilities for broad discount services, and incentives and use, for short-term farm lending?

Mr. RIGGLE. I think that perhaps the policies enunciated in the bills are that they wanted to continue and to expand the services to short-term credit agencies generally. What I think we are afraid of is that the incentives are not in sight to induce such participation, and that perhaps there are some other factors involved that have to do with the supervision of commercial banks, for instance, and other factors that are not taken care of. That should be done.

In other words, under the policy enunciated in the bills we feel that the incentives to remove the restrictions on other financing institutions, and provisions for incorporating into active membership other financing agencies that are cooperative in nature, and for providing for an equal participation of all of the other financing agencies involved in this matter, in distribution of patronage dividends were not as clear, perhaps, as they should be if we want to make this discount agency aggressive and get the support of a large segment of the short term credit profession; make it fully operative, because discount service is a vacuum, in our opinion, in the farmer's short-term credit picture.

And if it is not taken care of here, I think we are going to experience the same thing when we got into a recession that we experienced before, that the Congress will have to provide for the Government refinancing of a lot of credit that has been given to farmers. And that, in my opinion, could very well amount to a lot of money.

There is more than \$3 billion worth of short-term farmer paper in the country banks. Presumably, it was sound credit, when put out in good times when things were going along pretty well. At least half of it would qualify as sound credit, anyhow, under the terms set up by a discounting agency.

It seems to me that the Government might very well be put in the position of having to refinance in some way a billion and a half or maybe two billion dollars of farmer paper, according to the degree that we get into trouble, if we do.

A lot of that, by the standards by which credit is issued, if it was properly qualified, could be carried by a discounting agency of this kind.

The fact of the matter is that if a discount agency were in the picture, all the time, working on it, it would tend to dissipate the accumulative effects of this liquidation process, because it is a cumulative process which piles up; forces prices lower, and causes other creditors to get scared, to run to cover and accelerate the decline of farm valuations.

Senator SCHOEPPEL. Thank you. I did want to have your views.

Senator HOLLAND. I think that is a very important statement. And I want to elaborate on it a little for the record, if I may.

You have not said that you are neither for or against the pending legislation; and I understand why you cannot. But as I have heard your latest testimony, you are inclined to think that it does not give sufficient room for financing or refinancing other short term credit agencies, particularly country banks, in the event of emergency; is that what you mean?

Mr. RIGGLE. Yes. It isn't necessarily all of the fault of this legislation; part of it is perhaps in the supervision of the country banks and habits and traditions that they have.

But principally, I think that this legislation should be sure that the incentives are there for them to use it. In other words, they should recognize their first duty is service to the farmers and here is a place where they can alleviate the pressure of liquidation of the farmers credit by gearing up to this thing, providing it is geared up to serve their purposes.

Senator HOLLAND. What more recognition do you think should be given them than is given under this proposed bill under which, as I understand it, their participation certificates would give them exactly the same recognition as is given to members who use the credit facilities?

Mr. RIGGLE. Well, of course, the members are given stock in this bill.

Senator HOLLAND. And the country bank that rediscounted here or any of the other financial agencies and the like would be given participation certificates exactly equal in amount to the stock that would be issued under the same contribution, under the same business operation, to stock owning members; is that not correct?

Mr. RIGGLE. That is true.

Senator HOLLAND. Is it your opinion that there is not sufficient incentive to properly invite the participation in this effort by the country banks?

Mr. RIGGLE. I am not sure whether there is or not. I don't know what steps to take because we don't know exactly what the country banks have in mind about this.

For instance, some of the country banks organized credit corporations to handle the agricultural paper so as to rediscount or handle it with the intermediate credit.

What I think we want is to be sure that when they do participate that they are given the same services, the same encouragement, the same consideration for their paper, and the relations are set up under terms and conditions of rediscount which are not any more onerous to them than to anybody else; that they are given prior briefing and notice, so that when they make their loans they can qualify their paper for rediscounting purposes and many other things like that which go into making it work; partly promotion, partly education, partly regulation, perhaps most of it administrative, so far as the law is concerned. These are the most incentives that can be given.

Senator HOLLAND. That is what I was going to ask. Can you suggest any additional incentives that can be given without making the place of the country bank a preferred place over that of the ordinary user who has to tie up some of his capital in stock ownership in order to avail himself of the facilities?

Mr. RIGGLE. I think you will have to consider the country banks non-cooperative finance agencies, included on the basis of nonmembers,

but the thing that I think is decisive as to whether they patronize it or not is whether or not the regulations, and the terms and conditions, and prior information, and the approval of their supervising agencies, the national bank examiners and the Deposit Insurance Corporation—all of them are geared into this thing—recognize the need for it. That may require something more than this legislation.

Senator HOLLAND. Your point is entirely confined to the question of whether the administration would be sufficiently flexible and sympathetic to make a real place, a needed place for the country banks, is that it?

Mr. RIGGLE. That is certainly one of the things.

Senator HOLLAND. That cannot be assured by the form of legislation passed here, can it?

Mr. RIGGLE. Well, not necessarily, but the framework of it can be set up.

Of course, there are some other things involved here that have to do with the structure of the discount agency. We have not gone into that.

Senator HOLLAND. Are there some suggestions that you have?

Mr. RIGGLE. No.

Senator HOLLAND. You are speaking for several thousand co-operatives—

Mr. RIGGLE. As I say, we have not.

Senator HOLLAND (continuing). Throughout the country, and if you have suggestions by which you think this bill could be improved, I am sure the committee would be grateful to you for making them.

Mr. RIGGLE. We haven't taken any official position with regard to that, as a matter of fact. What we have said here is with regard to the feeling we have as to how it should serve and how it should be administered, et cetera, and we want to be sure that the Senators here on the committee, have this under consideration and if they feel the same way about it, with their technical help, they can devise what may be necessary.

Much of the technique about this has to do with banking acts and administration, et cetera, with which we are not too familiar.

Senator HOLLAND. I do not know of any member of this committee who is committed to any particular legislation, to where his mind is closed to provisions which would better the credit structure. Let me make that perfectly clear.

You represent several thousand associations, do you not?

Mr. RIGGLE. Yes.

Senator HOLLAND. How many?

Mr. RIGGLE. Not several thousand major associations, but about 125 such associations, representing some 5,000 local associations.

Senator HOLLAND. You represent about 5,000 local associations, which certainly have a very grave stake in this legislation and it seems to me that if you have doubts as to whether this legislation goes far enough, that your organization is peculiarly one which is qualified to make suggestions for improvement.

I am inviting you now to make any suggestions. If you do not have them in your mind now, I invite you to do so before the hearings are closed.

Mr. RIGGLE. Thank you very much. You have understood we had some division of opinion?

Senator HOLLAND. You mean in your organization?

Mr. RIGGLE. Yes. And that is the reason why we have not made definite suggestions.

Senator HOLLAND. You understand that the purpose of these congressional hearings is to educate the men who have to say "Yes" or "No" when the legislation comes on to be voted on?

Mr. RIGGLE. I think those differences of opinion have been represented here or will be by witnesses and that perhaps, against that background, that you will be able to make up your own minds.

But nevertheless, we appreciate the suggestion. If we have any further recommendations to make, why we will do it.

Senator HOLLAND. I want to say right now for this record that I think if you people have doubt in your mind about the effectiveness of this legislation to meet the problem, I think it is your duty to say so, and to state how you think it could be strengthened out so as to meet the situation.

If you do not do so, I will be very much disappointed, because I do not know any other organization to which we would have a greater right to turn and in whose expressions we would have greater confidence than the one you here represent.

Mr. RIGGLE. I think what we have done here is to lay down the broad outline as to principles. How the structure should be applied, I think it would take time to consider those.

Senator HOLLAND. We appreciate your going as far as you have.

Senator SCHOEPPLE. Mr. Chairman, I would just like to say one of the reasons I asked that question was because you put your finger on something. If true, I think you are looking at it from, probably, the highly, let us say, restricted viewpoint rather than probably a broad administrative approach, and I share with Senator Holland the feeling that since you and your associations that you represent are so closely allied with this matter of credit and this discount service, that you could submit recommendations to us for consideration, before we finally pass this legislation, if we pass it. And we will pass some legislation out of here, that is for sure. It would be very helpful.

I also share with you this feeling—I would like to see it administered on a pretty broad basis, rather than on a restricted basis. It is pretty hard to write specific legislation broadening or hemming in and including all of the details but if you have any general propositions from your organization, which would lend itself to some particular phase of the bill, we would certainly like to have it.

Senator HOLLAND. Thank you very much. We appreciate your appearing.

Mr. RIGGLE. Thank you.

Senator HOLLAND. The next witness is Mr. Lloyd C. Halvorson, representing the National Grange.

STATEMENT OF LLOYD C. HALVORSON, NATIONAL GRANGE

Mr. HALVORSON. Mr. Chairman, the Grange appreciates this opportunity to present its position on this farm credit legislation. Over the years we have had a great deal of interest in credit legislation.

Senator HOLLAND. Do you have a prepared statement?

Mr. HALVORSON. No; I do not. The Grange supports S. 3564 and we oppose S. 3550.

The Grange's position is grounded in history. You can go all the way back to the Federal land bank of 1916—and at that time the Grange had in its mind the philosophy of a farmer-owned system. And we still believe in a farmer-owned system.

But, of course, it was not feasible because of the inadequate amount of money that farmers had for such purposes.

So the Grange and the other leaders at that time conceived the idea of a partnership between Government and farmers. That partnership has worked very well over the years, as the record will show.

However, we have never lost sight of our ideal. We have always, from philosophical reasons, believed that the Government should not be in business, because it gives it a lot of power.

Competition from Government can easily be unfair because the cost factor may not determine the method of operation and charges.

We feel also that an institution, a credit institution, that is dependent upon itself, run by farmers, is going to be most efficient in the long run.

There are also a number of practical reasons why the Grange over the years has felt that we should continue to strive for our goal of farmer ownership. We have seen various situations arise where this has become very important.

While the Government has been a good partner, in a way, there have been dangers at times that have made us feel we better get on with this job. And I can cite you a few.

In 1940 the Government side of the partnership wanted to take over the whole system; at least, in the Federal land banks.

Then at other times the political climate changes and the Government wants to just walk out, even though the farmers are not able to take over.

When you have Government in the picture, and in credit particularly, there is danger of getting Government influence in the selection of personnel and getting people who are not especially or best qualified for the job.

There is danger of getting Government pressure or political pressure in loan policies.

We have seen attempts, because of the close tie-in of the Federal intermediate credit banks with Government, by the Bureau of the Budget and the Appropriations Committees of the Congress to determine the total amount that could be loaned to farmers.

Of course, that is inconsistent entirely with the idea of supplying the credit needs of farmers.

There have been efforts made to restrict the purpose for which Government loans can be made.

At one time you probably will remember, not long ago, an effort was made to prohibit loans to farmers for broiler production.

Senator HOLLAND. For what?

Mr. HALVORSON. Broiler production.

Senator HOLLAND. Yes.

Mr. HALVORSON. And those are the dangers that have made this job of farmer ownership a practical necessity.

About the only unit in the farm-credit system that was set up without an original idea of eventual farmer ownership, was the Federal intermediate credit bank. And we feel that is a standout

exception, even from the standpoint of our history, because the United States has stayed out of the banking field ever since, I believe, Andrew Jackson's days.

But this system, however, has been set up and it has worked well, but again because of the dangers of Government ownership we now seek legislation to eventually bring about farmer ownership.

The production credit system will never be a completely farmer-owned system until the Federal intermediate credit banks are also owned by the farmers, because it is an integral step between the money market and the farmers.

So that is one reason why we have for a number of years had in the back of our minds this idea—the idea of the farmers becoming owners of the FICB's.

In 1933 the Farm Credit Act also set up this partnership for the bank for cooperatives and PCA. That legislation was inadequate and has already been remedied in the act of 1955 for the cooperatives.

We are now trying to remedy this and to provide a sound basis, a basis that will really work for farmer ownership in the PCA.

We feel that in a way this is a historical occasion from the standpoint of the Grange because here after 40 years with this ideal we feel we are now at the threshold of the last door to getting the way set for farmer ownership and control of the entire system.

I want to say just a few words about the sources of opposition. I believe that some of the opposition to the legislation is coming from people who still want to rely on this Government partnership.

But I think that that opposition should be dismissed because we feel that that was settled by the Farm Credit Act of 1953. That applies to the Federal intermediate credit banks especially.

Senator HOLLAND. In other words, you think this is just working out one of the details?

Mr. HALVORSON. That is right.

Senator HOLLAND. Arising under the broad policy that was laid down in 1953?

Mr. HALVORSON. Right.

Another source of opposition has to do with leaving the surplus in the system. I don't know whether the bankers have or will testify before this committee, but they did testify before the House Agriculture Committee and they were very strong in their opposition to leaving the surplus in the institution.

We feel that we can justify very well leaving the surplus in the institution, on a number of bases.

In the first place, we feel this capital which the Government put up was to help get an institution going in order to perform a very essential function in our economy. It was evident in 1916 that mortgage credit was not sufficient for farmers or was not satisfactory for a number of reasons.

In 1933 it was evident that the commercial-lending system was not able to take care of the situation. They were drawing in money at the very time the farmers needed money.

Actually, also, the administrators of the Farm Credit Administration could have actually kept the interest rate lower so as not to have built up a surplus and given the farmers the benefit of this money that was put in there by the Government.

We feel that this money that have been built up, the surplus, is, in other words, the result of a conscious policy to provide for the future. That is why we feel that we should leave that money in there.

We can also look at this in another way; that is, that it is not only the farmers who are possibly getting some benefit out of the legal situation or the Government relationship, because even the bankers, I think we can say, are getting some benefit out of their privileges in this economy.

From 1939 until the present the money supply has increased from \$35 billion to \$135 billion. By "money supply" I mean the pocketbook money like we have in our pocketbook, and silver and also the check-book money.

However, the Treasury currency has stayed about the same, at about \$5 billion.

This money supply has increased, in other words, within the banking system itself. Some people would say that money has been created by banks. Of course, it has been loaned. Of course, the banks have to perform a checking account service for people which is costly, but I would say that the cost of interest bears no direct relationship to the bookkeeping cost because the interest rate is set by the Federal Reserve Board for other reasons than the cost of banking.

Now, I might point out that right now the rate of return on Treasury bills is about $2\frac{1}{2}$ percent. In 1954 it was down to seventy-five one-hundredths of 1 percent at one point.

Certainly, the cost of banking has not fluctuated that greatly, about more than three times. So, possibly, there is a little benefit in there for bankers. And they are prohibited by law, we stress that, from paying interest on demand deposits at the present time.

Furthermore, the Government maintains about \$4.5 billion of deposits in the commercial banks of the country, plus another \$500 million in the Federal Reserve bank. It is really the Federal Reserve banks that are the Government's banks.

In other words, that is where they clear their checks, et cetera.

So in a way the treasury deposit in commercial banks is like the National Grange keeping a deposit at the bank where I do my banking, even though the Grange has its own bank for its account. I think that in that \$4.5 billion there is of some benefit for the bankers.

In regard to the revolving fund, we certainly want to see that preserved for this reason: when that revolving fund is called upon, it will in most cases be due to forces beyond the control of farmers or the Farm Credit Administration agencies. And we feel that it is even of benefit to a responsible Government to be able to have a credit institution like the Farm Credit Administration that can come in and bolster the agricultural economy which is also then a great benefit to preserving the integrity and the strength of our entire economy.

Senator HOLLAND. You mean without asking for emergency legislation, it will be in position to function immediately?

Mr. HALVORSON. Yes.

Senator HOLLAND. And to meet an emergency?

Mr. HALVORSON. Yes; it will do it with a minimum of cost to Government. And with speed.

In regard to the position of the Bureau of the Budget, first of all, I want to call to your attention a statement that the Bureau of the Budget has made which I think is very significant.

They have, in effect, said:

We have no objection to donating the present surplus and reserves of the Production Credit Corporation and the Federal intermediate banks to the merged institutions as a permanent Federal subsidy.

They are not asking for that to be returned. They are not asking for interest rate to be paid on it.

The bankers are asking for that to be returned, and even for interest rates to be returned on it.

Where we get into disagreement with the Bureau of the Budget is in regard to the treatment of this surplus in the event of dissolution.

Now the Grange would not ever want to see—and we will be on record to this effect—this surplus being distributed as dissolution spoils, you might say, to the stockholders that will be created by this legislation.

Senator HOLLAND. You would want to see it distributed just as in the case of any other cooperative surplus or reserve to all of those who helped to create it originally?

Mr. HALVORSON. We would leave that up to the Congress to decide, because the Federal intermediate credit banks cannot be dissolved, I have been told, without an act of Congress.

If at that time, if there is a surplus, what I would say in all probability, if this system is to be dissolved, in all likelihood there will not be any surplus there to be distributed to the stockholders. Possibly it will be on the rocks.

Senator HOLLAND. Do you not think it is much more desirable to have that question settled in this legislation, so that this may not be regarded as a continuing subsidy from the Federal Government which might justify the Federal Government asking to interfere in administration and operation at any time in the future?

Mr. HALVORSON. We, certainly—

Senator HOLLAND. And that instead, this surplus reserve should be regarded as having been abandoned or given, or all claim to it withdrawn by the Federal Government? After all, it was created by interest rates greater than those which would merely carry the operation, so that from this time forth, not only will it be regarded as corporation surplus reserve, but that the legislation should also state, at least in a general way, how that reserve should be distributed in the event of liquidation.

Mr. HALVORSON. Well, yes, that I would say we agree with, but we would still say that the objection of the Bureau of the Budget is rather academic because we see no possibility of this dissolution and distribution of the surplus.

But from the standpoint of indicating clearly that this is a wholly owned farmer institution, we agree with you 100 percent, whereas the Budget Bureau's position would, even though it has no practical significance, really provide an entry there for Government control and dictation. That would defeat the very purpose we have had over all of these years. And I believe it would even defeat the purpose of the administration. I believe they also want a farmer owned and controlled system.

Senator HOLLAND. In other words, you find as much objection as I do as one member of the committee to that part of the Budget Bureau's statement which says that they have no objection to con-

tinuing this surplus and reserve as a permanent Government subsidy to the corporations.

You feel that that fund should instead become a part of the corporate assets for the laudable purposes which you have indicated, and that when this new merged corporation comes into existence the Federal Government at that very time ceases to have any continuing interest in it which would justify any interference that the Government might want to sponsor at any time in the future.

Do you agree with that?

Mr. HALVORSON. Yes, we would feel that the Government has subsidized the System in the past but they are now out of it and this surplus belongs to the System.

So we go along with the bill as it is. We feel that anything like what the Bureau of the Budget has suggested would certainly practically vitiate the entire purpose of the bill.

In other words, they do indicate their willingness to let the System have the benefit, if you want to call it that, of the existing surplus.

I think they indicate they are willing to let that benefit be there. But to thereby also at the same time want an entry for control later on is bad, we feel.

Senator HOLLAND. You want the question settled at this time to the effect that what the farmer-controlled organization has to do to completely control it is to complete the retirement of the Government capital stock at par?

Mr. HALVORSON. Yes; that is right.

Now, moving on to certain problems connected with the other financial institution, one of the first questions is that they are not given stockholder status.

Senator HOLLAND. Of course, I did not mean to negative the continued payment of the franchise tax. That, of course, should continue to be paid until the retirement of the Government capital is complete.

Mr. HALVORSON. Right.

Senator HOLLAND. All right; go ahead.

Mr. HALVORSON. I might also try to take exception at least with the Bureau of the Budget position that this is different from the case of the bank for cooperatives and the Federal land banks.

Now actually, technically, this is a new institution, a merged institution which at the very start will be a mixed-ownership corporation, and so it is from the start a mixed-ownership corporation, and I see no reason for trying to apply the Government Corporation Control Act for any reason here that did not apply there.

Senator HOLLAND. Would it be correct to say that you think there is a difference in degree but not any difference in principle?

Mr. HALVORSON. That is right; and the dangers of Government control would be very great if you bring it in through the Government Corporation Control Act, as I indicated before, especially with regard to the control over the budget and lending policies.

Senator HOLLAND. The temptation to control is greater when you are dealing with short-term credit which might come peculiarly to be used, let's say, in a particular season when an election is on?

Mr. HALVORSON. Sure.

Senator HOLLAND. Or when some particular public issue is disturbing the farm population?

Mr. HALVORSON. That is right.

Now, in regard to these other financial institutions, if they want stockholdership status, and I do not know that they do, but it seems to me that that is a question that we will have to put off at this time and consider at a later date. It can always be considered at a later date. There are a lot of problems connected with that; namely, How are you going to work them in at the district level?

We have the district boards with representation from the three levels, Federal land banks, production credit, and bank for co-operatives.

Now, how these groups should be worked in, that is, the proprietary borrowers like bankers, would that defeat the purpose of the cooperative system or could they be brought in?

Those are questions that would have to be answered by the proponents of bringing them in, it seems to me, before we could support that. But we are not closing the door to that possibility in the future.

Senator HOLLAND. Well, there is no specific provision that has been submitted so far as I know that looks toward bringing it in with membership rights or rights to be officially represented at this time.

Mr. HALVORSON. I believe it was brought up in the House hearing and I presume you will get that same suggestion here.

Senator HOLLAND. You mean specific wording being suggested?

Mr. HALVORSON. I believe so.

Senator HOLLAND. Thank you.

Mr. HALVORSON. The other financial institutions complain about not sharing in the surplus. Again I feel that that is academic for the same reasons that I indicated in connection with the objections of the Bureau of the Budget.

This surplus will stay in the system and it will benefit all the borrowers whether they are stockholders or other borrowers, as I see it.

There are objections also raised to the matter of making cost of supervision a part of the interest rate. The other financial institutions say that they are not getting that supervision and should not pay for it. There are partial answers at least to this. One is that the PCA's are putting in directly and indirectly about \$26 million more money than any other group. They are putting up some money based on a levy, as I noticed, a capital levy, you might say, and then the surplus from the production credit corporations is being put into the new FICB's.

Certainly that will generate some income which will help pay the cost of supervision. In the long run we feel that a PCA can be run with as little supervision from above, possibly, at least we hope and have faith that they can be, as a country banker or any other financial institution.

Therefore, to the extent there will be higher cost of supervision or of dealing with the PCA than with other borrowers, it will be partly offset.

Possibly also if we look at this system as a cooperative institution, we feel that we are giving actually the benefit of this farmer-cooperative system, this financial arrangement to other borrowers.

We feel that there are adequate assurances in the bill. I think the bill has been changed some, from at least the original form that I saw it in, to give adequate assurances to these other financial institu-

tions that they will have access to credit from the FICB at equitable terms and equitable rates.

That concludes my statement, Mr. Chairman.

Senator HOLLAND. Thank you very much. I see Senator Mundt and Senator Humphrey have both come in while you were testifying. This is Mr. Halvorson testifying for the Grange in support of the pending legislation S. 3564.

Do either of you Senators have questions?

Senator MUNDT. I have no questions, Mr. Chairman.

Senator HUMPHREY. No; I have no particular question.

Could I just ask as a point of information, as I understand it, S. 3550 is the Budget Bureau bill, so to speak; isn't it?

Senator HOLLAND. Yes.

Senator HUMPHREY. And your bill, Senator; S. 3564?

Senator HOLLAND. That is the bill of the Farm Credit Administration.

Senator HUMPHREY. And the essential difference in those two bills is the degree of Federal participation?

Mr. HALVORSON. Right.

Senator HUMPHREY. Over the surpluses accumulated which would be combined into this new operation under the FICB, is that right?

Mr. HALVORSON. Yes, and we feel and are fearful that if the Government kept an interest in the surplus in event of liquidation it would be really an opening for control from the Government of a system that we hope to be completely farmer-owned and controlled?

Senator HUMPHREY. What is there to this argument that I have heard that the two types of stock would be issued—it was a class A stock and class B stock.

Is that in your thinking for the purchase of the assets?

Mr. HALVORSON. Yes. The farmers will eventually—I have forgotten whether it is A or B——

Senator HUMPHREY. The B stock.

Mr. HALVORSON. That will eventually replace all of the Government A stock. Then it will be completely farmer-owned and controlled if we can avoid this Budget Bureau insistence or request at least on maintaining Government interest in surplus.

That will always be a sore point, always a danger as we see it, if we leave that possibility in there.

Senator HUMPHREY. Now I have heard from some that the objective of course has been that the PCA's should be completely farmer-owned and controlled and all the Government capitalization should be liquidated and displaced by farmer capital, so to speak.

And before that is fully accomplished now you move on into another operation of the FICB, the Federal intermediate credit bank program.

Mr. HALVORSON. I think that there is only about \$2 million of the original \$90 million of Government capital still in the PCA's so that job is practically completed.

I don't think that that amount is sufficient to cause our slowing down the effort of eventually, or at least beginning of the process of farmer ownership and control of the FICB's.

Now this is not something that is scheduled so much a year that you have got to meet and if you do not meet it, you are going to be in

difficulty. This is a gradual process determined by the—you might say the refunds that will be available for retiring the Government capital.

Senator HUMPHREY. In the PCA's?

Mr. HALVORSON. No, in the FICB's.

Senator HUMPHREY. In the new amalgamated credit unions?

Mr. HALVORSON. Yes. In the PCA's I think it will still be up to the individual PCA and probably the Federal Farm Credit Board to determine when a PCA should return the Government capital. That is the way it is now and as far as I know there is no change contemplated in the withdrawal of Government capital from the PCA itself.

Senator HUMPHREY. In case this would all be liquidated by Act of Congress—I gather that was your testimony that that is the only way an FICB operation could be set aside——

Mr. HALVORSON. Yes.

Senator HUMPHREY (continuing). What was your view as to the distribution of whatever assets would remain?

Mr. HALVORSON. Well, we feel that the Congress could again at that time consider this question and if it seemed that there was to be an unfair distribution of spoils, why I think it could take action at that time to correct it.

But we feel that if it was ever to be dissolved there undoubtedly would be no surplus there, or else there is a possibility that we would have a new farm credit institution of a completely different organizational structure and possibly we would want to move the whole surplus over into that new organization if we ever reorganized again.

Senator HUMPHREY. In other words you are not recommending, for example, that the stockholders of class B stock or class A stock, which in this instance would be the Federal Government, should get whatever assets remained?

Mr. HALVORSON. As the bill now stands, they would get it, yes; and we believe in leaving it that way, for the simple reason of making clear that with the retirement of the Government capital this eventually will be a wholly farmer-owned and controlled institution.

If that would seem wrong at the time of the act of dissolution, why it could be handled at that time, corrected as we see it.

Senator HUMPHREY. How do you answer this argument of the Bureau of the Budget that I have heard that if the Federal intermediate credit bank operation had been a deficit proposition, a failure, so to speak, that the Federal Government would have had to pick up the ticket, pay the bills, that is, the taxpayers, so to speak.

But now that it has been a success, or at least has accumulated what is it, some \$63 million——

Mr. HALVORSON. I think it is 40 or 60.

Senator HUMPHREY. Well, some considerable amount of surplus, now that you want the Federal Government to have no control when there is this consolidation?

Mr. HALVORSON. Well——

Senator HUMPHREY. Don't misunderstand me.

I am not necessarily buying that argument. I just heard it.

Mr. HALVORSON. I think that actually farmers feel so close to this system that they feel that they made it a success and therefore deserve to get some of the benefit out of making it a success.

Now if it had failed, possibly it would have been due to general economic conditions which were beyond the control of the farmers or the institution itself. Anyhow, I feel that an institution such as this is of great benefit to responsible government because it can go in and bolster an important segment of the economy.

This would not be the first case, however, that the Government has taken a loss on something. I think that we have to go on the actual facts and not on the hypothesis of a failure. It has worked wonderfully well and I think it is to the credit of farm people and their leaders and the administrators of this program.

Senator HOLLAND. It seems to me that the best answer might be that the farmers, by the way they have run the organization, and they have largely run them, have out of their own pockets by the interest that they have paid over and above what is necessary just to continue a solvent operation, built up a surplus, and that as in the case of any cooperative operation, you look back to see who created the surplus or the reserve, and certainly they have created it, and it seems to me that it is the proper application of sound cooperation to say that those who created it should have it.

My own feeling is that the sound thing to do is not only to recognize that as giving the corporation the right to have this contingent surplus and reserve as a cushion, they have created it out of their own pockets, but also to recognize now once and for all as we pass this legislation, that those who have the proprietary right in that in the event of liquidation or dissolution are the ones who created it, just as you would in any other soundly cooperative approach, and not leave it to the Congress in the future to play with it.

On the contrary, I do not want this to be regarded as a continuing federal subsidy because that is a constant temptation for succeeding Congresses to reach in and try to control it.

Senator HUMPHREY. I think that is a very valid point. That is what I am trying to get Mr. Halvorson's comments on, that is primarily on the Bureau of the Budget's criticisms and their recommendations in the so-called Administration bill.

There is that difference between the bill introduced by Senator Holland and the bill by the Chairman in behalf of the Bureau of the Budget.

Mr. HALVORSON. Could I make another point in connection with that?

The bill also provides that there can be no distribution to the stockholders in the way of dividends if this surplus is impaired, so there is certainly a clear intention there of maintaining this surplus.

There is no fear of a spoils distribution, I might say.

I would like to also answer your question a little further as to the justification.

We have had all kinds of aid to agriculture, and it seems to me that the cheapest aid that the Government has ever given to agriculture, where the country has gotten more for its money than in anything else, has been in the Farm Credit agencies.

After all, we are returning the capitol intact, 100 percent, and this benefit has been very tremendous for a very small cost, as we see it.

Senator HUMPHREY. Just to get it straight, the ultimate disposition would be that the PCA's would own the Intermediate Credit Bank?

Mr. HALVORSON. That is right.

Senator HUMPHREY. And then of course the individual stockholders in the PCA who own the Class B stock, which in turn would be used to retire the Class A stock owned by the Government, would be the ultimate owners of the intermediate credit system.

Mr. HALVORSON. Absolutely.

Senator HUMPHREY. And you want to get it free, as Senator Holland has said, of any theoretical or long-term obligation on the part of the Government, obligation which may also include within it injection or interference on the part of the Federal Government.

Is that the theory and thesis of your argument?

Mr. HALVORSON. That is it exactly.

Senator HUMPHREY. Thank you.

I have great respect for the views of your organization and I gather that those are pretty much in line with that of the National Council of Farm Cooperatives, is that correct?

Mr. HALVORSON. They would have to speak for themselves.

Senator HUMPHREY. I was just looking over the conclusions here of their testimony.

Mr. HALVORSON. Yes, they strongly believe in a farmer-owned and controlled credit system as we do.

Senator HUMPHREY. Is there pretty much of uniformity of view amongst the farm organizations on this matter?

Mr. HALVORSON. On the basic principles, yes. I would say there are differences that do exist over this legislation. They are on secondary issues.

Senator HUMPHREY. But I mean as far as this exclusive ownership and control by the farmers themselves and the PCA, is that pretty well agreed to by the farm organizations insofar as you know?

Mr. HALVORSON. Yes, I would say that is 100 percent. If there is an exception I would not know about it.

Senator HUMPHREY. Thank you very much.

Senator HOLLAND. It seems to me that any insistence that the government should own the reserves and surpluses after the organizations have paid the franchise tax which the Congress had imposed as our measure of the right of the government to participate in the earnings would be almost as bald a thing as to have the Government ask shippers who had used a certain river that had been made a valuable channel of commerce, and which shippers had earned some profits on, to contribute those profits or part of them back to the government, notwithstanding that there was not any such condition imposed for the user at the time they used it.

Mr. HALVORSON. That is exactly it.

Senator HOLLAND. It does not make sense to me to insist that the surplus reserve now should belong to the Government.

Thank you very much, Mr. Halvorson.

Mr. HALVORSON. Thank you for the privilege of testifying.

Senator HUMPHREY. Mr. Chairman, one of the gentlemen that testified over in the House Committee with reference to these bills left off at my office a statement which he asked me to have placed in the record, and I said that I would do it.

I am not familiar with the body of this statement, the text of it, but I ask to have it included in the record.

Senator HOLLAND. Without objection, it will be done.

STATEMENT FILED BY LLOYD GODLEY, PRESIDENT, SECRETARY-TREASURERS AND PRESIDENTS OF THE ARKANSAS PRODUCTION CREDIT ASSOCIATIONS, OSCEOLA, ARK.

I am Lloyd Godley of Osceola, Ark., president of the Secretary-Treasurers and Presidents of the Arkansas Production Credit Associations.

I am a farmer, a member of Planters Production Credit Association, and general manager of the association.

I helped to organize the production credit associations in the Wichita district, served for a time as field credit supervisor, and later served as field representative for the Production Credit Division, Washington, D. C.

I am here representing 10 associations of my State.

We do not question the good intention of those who have prepared this legislation, nor the high purpose of the honorable gentlemen whose names appear as sponsors of this bill. We shall do our best to be constructive in our opposition. We shall strive to point out what we consider to be wrong and in the end, we shall offer an alternative.

We have no objective in being here except to protect the interest of us farmers who own the production credit associations.

We will first call your attention to the declaration of policy set forth in this bill, a part of which is as follows: "To facilitate farmer ownership of the merged banks, and retirement of Government capital therein; to encourage and promote the continued growth and development of production credit associations as self-supporting cooperative lending institutions."

We think it unfair to single out the farmers who own the production credit associations and demand that they be responsible for retiring Government capital from the Federal intermediate credit bank.

We do not see how this bill can in any way encourage and promote the continued growth and development of the production credit associations, but we shall point out many reasons why we feel that this bill, if passed, may work to the detriment of our associations.

Under the guidance and constructive supervision of the production credit corporations, there has been developed a nationwide system of production credit associations without precedent in soundness of operation or service to the farm people.

There is nothing inherent in a farmer capitalized and operated credit institution to make it safe or sound.

Before production credit, we had many farmer-operated credit institutions, discounting through the intermediate credit banks that failed for lack of proper guidance and supervision. We, therefore, consider it extremely unwise to eliminate the production credit corporations from the system.

Even though the production credit associations may be required to completely support the corporations, we still feel that its service will be worth much more than it will cost.

We do not consider it fair or in the traditions of our Government, to terminate by legislation, the officers and employees who have built this system.

We do not claim that the motive back of this section of this bill is to silence those officers and employees who might otherwise oppose the bill, but we are of the opinion that it has done that very thing. We can see the possibility of such legislation throwing the farm credit system wide open to political appointments.

As you gentlemen well know, the Federal intermediate credit banks were not set up for the purpose of serving production credit associations. They were set up 10 years before the production credit system.

The Federal intermediate credit banks have, and do, serve well as the discounting agency for other financial institutions lending to farmers, which include banks, livestock associations, cotton factors, et al.

We see nothing fair in forcing production credit associations by legislation, to bear the burden of purchasing a bank of discount for the use of other financial institutions. We are sure that many of the other financial institutions feel the same way about this matter.

The proponents of this bill may claim that the purchase of Federal Intermediate Credit Bank will be a benefit, not a burden, to the associations. With this we must disagree. Let us point out that the average association will be required, under this act, to invest about \$30,000 of its capital in the Federal Intermediate Credit Bank. This amounts to approximately 14 percent of the total capital stock of our associations.

The use of this capital will be lost to the production credit association for a very minimum of 20 years—some have estimated it at 40 to 50 years. This capital,

while still figured as an asset of the production credit association, cannot be used as security for production credit loans.

This loss to each production credit association of \$30,000 effective capital will mean a loss of \$15 million for all production credit associations in the Nation.

We would like to know how such can encourage and promote the continued growth and development of the production credit associations.

In order that our associations might become farmer-owned and have sufficient capital left to serve the credit needs of our respective communities, many of us purchased stock far in excess of the amount necessary to qualify our loans. To us it does not seem quite fair to legislate this hard earned capital into Federal Intermediate Credit Bank against the will of the farmers who put up the money.

We are vigorously opposed to ownership without control.

Should the production credit associations ever own the Federal Intermediate Credit Bank, they would have no control whatsoever under this proposed legislation.

A board, composed as are our district farm credit boards, can never by the greatest stretch of the imagination, be considered a production credit board.

Should you gentlemen recommend to the Congress that this bill be passed, we would hope and pray that you amend it to require a separate board for production credit. Instead of decentralizing the System—bringing it closer to the people it is to serve—this bill centralizes 15 functions in Washington that are now being performed at the district level.

The proposed bill provides that after all class A stock of the Federal Intermediate Credit Bank has been retired, the bank may then retire class B stock held by the production credit associations. There is no limit set on the amount of class B stock that may be so retired; therefore, it may be assumed that the Federal Intermediate Credit Bank would retire all the class B stock owned by the associations.

In such case, the Federal Intermediate Credit Bank would evidently become a public trust. Even though the production credit associations had put their capital into the Federal intermediate credit banks with the expectation of eventual ownership, they would find that they had no ownership at all should Federal Intermediate Credit Bank see fit to retire the class B stock.

We have been asked the question, what do you propose as an alternative to the proposed legislation?

Our answer is that we need no alternative legislation at this time.

We have a most excellent production credit system, that has served well the farmers of the Nation for the past 22 years.

When the Farm Credit Act of 1933 was passed, there was no indication that the Congress would ever require, or expect, the production credit associations to purchase the Federal Intermediate Credit Bank or the Production Credit Corporation.

The farmers have done a magnificent job of conserving the capital appropriated by the Congress to capitalize the associations. Through careful management the majority of the associations have returned to the Production Credit Corporation all of the Government capital. But, despite good management, adverse conditions have prevented some of the associations from becoming completely farmer owned.

Now, under this proposed bill, with no choice of their own, they are to be burdened for at least a generation with the greater task of purchasing the Federal Intermediate Credit Bank, and this, mind you, before they have completed the job of farmer ownership of the associations.

It is popular to preach complete farmer ownership of the farm credit system. It should be more popular to have a system that gives the greatest amount of credit service to the farmer at the lowest cost to him.

We farmers, all of us know, are in a severe cost-price squeeze. We cannot see the logic of the Congress on the one hand passing a farm bill to relieve the pressure of low farm prices, and on the other hand passing legislation that will burden the farmers' credit institution.

For the duration of this farm crisis, we honestly believe that the Government capital should be kept in Federal Intermediate Credit Bank and Production Credit Corporation. Their operations should be streamlined for economy and efficiency. The Federal Intermediate Credit Bank should in reality become a bank of discount. It should give up the practice it has followed for the past 22 years of being a primary lender.

We read in the papers that the President has recommended foreign aid of \$4.8 billion. We would not question the judgement of our President in reference

to his foreign aid recommendations. With the well-being of our country at heart, we are confident that he would make no recommendation except what he honestly considered best for us all.

The reason we mention this foreign aid is that the Government capital in our Farm Credit System is just a pittance compared to our annual foreign aid contribution. It would seem to us that the well-being of the American farmer is, to say the least, equal in importance to that of our presumed friends in foreign lands.

We believe that the proposed bill will not reduce—but may increase—the cost of the farmers' production money.

We are confident it will reduce the ability of the production credit associations to serve the people.

If it means farmer ownership, it will be ownership without control.

It will force farmer-owned credit institutions to invest their capital in another corporation.

It will deprive associations of a type of counsel and supervision that has proven good and dependable.

It may mean that the Federal Intermediate Credit Bank will eventually be a public trust corporation instead of being owned by the production credit associations.

Seeing this bill from the point of view of the farmers who own the associations, we therefore can see nothing good in it.

All the associations that have been represented before you gentlemen, or that have communicated with you in approval of this bill, would evidently take stock in the Federal Intermediate Credit Bank, if you made this feature optional.

We assume this since they think ownership of such stock will be so advantageous for the Production Credit Association.

If a little stock is good, no doubt more stock would be better; therefore, should you make stock ownership optional, we shall be glad to let any association have our share of the Federal Intermediate Credit Bank stock, thus permitting some association to have a double dose of a good thing.

We prefer forgoing our pro rata share of Federal Intermediate Credit Bank, taking our chances along with the other financial institutions.

We urge that you gentlemen of the committee do not recommend the passage of this bill.

Senator HOLLAND. Mr. John C. Lynn.

STATEMENTS OF JOHN C. LYNN, LEGISLATIVE DIRECTOR, AND HUGH F. HALL, LEGISLATIVE ASSISTANT, AMERICAN FARM BUREAU FEDERATION

Mr. LYNN. My name is John C. Lynn, and I am legislative director of the American Farm Bureau.

Mr. Hugh Hall, who is our specialist in this field, is with me.

I recognize the time factor and I would like with your permission to file this statement for the record and make one or two comments and point out one or two highlights of the statement.

Senator HOLLAND. Without objection, the statement will be filed.
(The statement submitted by Mr. Lynn is as follows:)

Mr. Chairman, gentlemen of the committee, we wish to express our appreciation on behalf of the American Farm Bureau Federation for this opportunity to appear before your committee and present our views concerning the proposal to merge the Production Credit Corp. with the Federal Intermediate Credit Banks.

The American Farm Bureau Federation is a voluntary, non-governmental organization of farmers, the total family membership of which numbers 1,623,222 as of last November 30.

The American Farm Bureau Federation has for many years actively supported the decentralization of the Farm Credit Administration which finally resulted in the enactment of the Farm Credit Act of 1953. Among the objectives which were sought are farmer ownership and control of the several Farm Credit institutions and the retirement of Government capital in the System. These prin-

ciples were set forth in our resolutions of 1952 and 1953 and support for them has been continued since that time.

A number of objectives included in our resolutions have already been achieved.

We would like to review our resolutions of 1953 in this regard and make comments on the status of various recommendations and indicate those that are covered by the pending legislation.

Our resolution of December 1953 reads as follows:

"The Farm Credit Act of 1953 is a long step toward a fully farmer-owned and controlled Farm Credit System. Much remains to be done in authorizing sound provisions for the retirement of Government capital, in authorizing sound and business-like procedures and in policy making by the Federal Farm Credit Board."

This portion of the resolution lays the groundwork for the establishment of a fully farmer owned and controlled Farm Credit structure. The Federal Land Bank System has already reached this objective both as to farmer ownership and control and as to the retirement of Government capital. The Farm Credit Act of 1955 has set up the program under which the banks for cooperatives will be able to retire the Government capital invested therein.

Continuing with the resolution:

"The Farm Credit Act of 1953 directs the Farm Credit Board to propose legislation designed to hasten the retirement of Government capital in the Farm Credit System on a sound basis and to improve the operation and service of the system. The Farm Credit Board should give consideration to the following in its recommendations:

(1) Authority should be provided for the Federal land bank to purchase the remaining assets of the Federal Farm Mortgage Corporation. The Farm Credit Board should study the possibility of using this corporation, if acquired, to either insure or to make loans at appropriate interest rates to supplement those now made by Federal land banks based upon appraised normal agricultural value. There is real need for more adequate loans, and this may be the best way to provide them without jeopardizing the financial condition of the land banks."

The purchase of the assets of the Federal Farm Mortgage Corporation has been provided for by special enactment.

The resolution continues:

"There should be authority for the Production Credit Associations to pay a preferential dividend on class-A nonvoting stock to encourage farmer investment and thereby provide more capital for the retirement of Government investments in the Production Credit Associations."

This authority was granted by the Farm Credit Act of 1955.

The resolutions continue:

"Provisions should be enacted to encourage cooperatives borrowing from the banks for cooperatives to purchase stock in the banks on a sound basis that would speed the retirement of Government capital in such banks."

This resolution also was embodied in the Farm Credit Act of 1955.

The next point in the resolution provides:

"Government capital remaining in the Farm Credit System should be retired in a manner and at a rate that will maintain the financial strength of each unit. All the retired Government capital should be placed in a permanent revolving fund subject to being called back into the system by the Farm Credit Board with the approval of the Secretary of the Treasury. When such capital is recalled the Farm Credit System should pay a rate of interest on the amounts recalled that would equal the average rate paid by the Government in that year on funds it borrows."

We believe the principles embodied in this bill are consistent with this resolution—as is the Farm Credit Act of 1955 with respect to the banks for cooperatives. The pending legislation provides for the retirement of Government capital in the Production Credit Corporations and the Federal intermediate credit banks in a manner designed to maintain the financial status of each of the merged Federal intermediate credit banks.

The bill also provides that the Government capital retired, as a result of this legislation, will be placed in a permanent revolving fund subject to being called back into the System as may be required. When this is done the Farm Credit System will pay either interest or a franchise tax as provided in a formula in the bill for determining the amount of payment for use of such funds.

Our 1953 resolution also provides: "The maximum loan limit of the land banks should be raised to a more realistic level."

This was done in the Farm Credit Act of 1955.

The resolution further states: "The banks for cooperatives should be authorized to issue consolidated debentures.

This likewise was authorized in the 1955 act.

The resolution continues: "The Farm Credit System should be removed from the provisions of the Government Corporation Control Act."

We understand the pending bill will carry out this recommendation except with respect to the audit power which exists with regard to mixed ownership corporations. Whenever any Federal intermediate credit bank has retired its Government capital, it will then be free from the latter requirement.

Our resolution continues: "The Farm Credit System has the purpose of providing sound and adequate credit facilities for farmers and farmer cooperatives at the lowest possible cost. We urge the adoption of measures and procedures including such consolidation and unification or coordination as will best serve the needs of farmers and farmer co-ops."

The proposed merger of the production credit corporations and the Federal intermediate credit banks, under the plan recommended in these bills for the retirement of Government capital, is intended to place the Farm Credit institutions in the position of achieving the ends of the foregoing resolutions.

While the production credit associations have been doing the major portion of business with the Federal intermediate credit banks in recent years, there have been so-called other financial institutions which have been using the loan and discount facilities of the Federal intermediate credit banks.

In the pending bills it is proposed that the production credit associations provide the initial capital necessary to begin the retirement of the capital investment of the Federal Government. They would also become, in the event of ultimate liquidation or dissolution of the banks, the beneficiaries of the accumulated surpluses in both the production credit corporations and the Federal intermediate credit banks. We recognize that the bill provides these surpluses existing at the time of the merger are prohibited from being distributed as patronage dividends. There remains, however, discrimination as between the production credit associations and the "other financial institutions" with respect to surplus funds existing at the time of the merger, in the event of liquidation or dissolution of the banks while in a solvent condition. In addition to discrimination on this point, there has arisen concern relative to the voting rights and privileges of the "other financial institutions" as compared with production credit associations. To correct this, the executive committee of the American Farm Bureau Federation on April 16, 1956 adopted the following motion:

"That we support the bill with an amendment to give farmer owned and controlled financing institutions which operate on cooperative principles, and which have been using the facilities of the Federal intermediate credit banks, an election to acquire stock ownership, including voting rights and privileges and the right to participate in any ultimate distribution of the surpluses existing at the time of the merger, on the same basis as the production credit associations, this election to be exercised within a reasonable time prior to the effective date of the proposed merger."

The change on page 14 of the bill of the word "three" to the word "seven" represents a very important and constructive change in short-term credit. The effect of this provision is to authorize the banks to discount so-called intermediate term credit paper running up to 7 years. Present law now provides for a 3-year term as maximum.

Our resolutions provide: "Longer-term production loans are needed by many farmers. Loans for 2 to 7 years, bridging the gap between short-term and long-term credit, may be desirable for the purchase of machinery and equipment, improvement and construction of farm buildings, and establishment of some types of livestock operations. Commercial and cooperative lending agencies should provide intermediate term credit for farmers for these particular needs.

"We urge lenders to take steps to meet this type of credit need."

We believe that with amendments designed to carry out our recommendations, the proposal should be enacted into law.

Mr. LYNN. We are in support of the legislation under consideration, S. 3564. We think it is a step in the right direction. We have long been for and supported legislation for farmer ownership and control of the farm credit institutions.

I would call your attention, about the middle of page 4, and I would like to read from the statement because there has been a problem raised by several of the States. We have some special action dealing with it.

While the production credit associations have been doing the major portion of business with the Federal intermediate credit banks in recent years, there have been so-called other financial institutions which have been using the loan and discount facilities of the Federal intermediate credit banks.

In the pending bills it is proposed that the production credit associations provide the initial capital necessary to begin the retirement of the capital investment of the Federal Government. They would also become, in the event of ultimate liquidation or dissolution of the banks, the beneficiaries of the accumulated surpluses in both the production credit corporations and the Federal intermediate credit banks.

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Mr. Chairman, we recognize that part of this language here might be incorporated as an amendment to the bill, and we also recognize that part of the information in this language will have to be an administrative matter in that there has to be a determination of those institutions which operate on a cooperative principle.

We simply bring this to the attention of the committee.

It has been brought to our attention sufficiently for us to call a special meeting of the executive committee to give it consideration, and we would recommend that the committee give consideration to this proposal in your final consideration of the bill.

Senator HOLLAND. I note that you tie together the two things, the giving of an election to the OFI's which operate on cooperative principles to acquire voting rights and privileges and stock ownership, and also to participate in ultimate distribution of the surpluses existing at the time of the merger.

The two do not have to be tied together, do they?

Mr. LYNN. No.

Senator HOLLAND. In other words, the recognition of sound cooperative principle almost insists upon the recognition of the second of those items, because the present surplus or reserve has been created by nonstockholders as well as stockholders, and without in any way handicapping the use of that fund as a continuing cushion or reserve up to the time of liquidation. It seems to me that if we are going to have a sound cooperative principle recognized, that you must recognize that those who contributed to setting it up, creating it, ought to be equally entitled to participation in the event there is a liquidation.

Do you support that principle?

Mr. LYNN. Yes.

Senator HOLLAND. And do you also support the principle that that conclusion is not necessarily tied to the first part of your position, that is giving them the right to come in and acquire proprietary interests in the capital structure of the organization?

In other words your position applies only to organizations and OFI's that are operated as cooperatives?

Mr. LYNN. As cooperatives.

Senator HOLLAND. And the latter part is broader than that which applies to everybody who has participated in setting up the surpluses on hand at the time of the merger?

Mr. HALL. May I comment, Senator Holland?

Senator HOLLAND. Yes, Mr. Hall.

Mr. HALL. I think that the intention—having heard the discussion of this matter in the committee—was to limit this to farmer owned and controlled cooperatives.

Senator HOLLAND. As to the first part?

Mr. HALL. Well, as to both parts.

In other words, I gather that your thought is that noncooperative borrowers have contributed something to this surplus too, that is, the existing surplus.

Senator HOLLAND. Yes.

Mr. HALL. Now our thought was, however, that inasmuch as we want this to be a farmer owned and controlled institution, that it would not be possible to accord those people rights in the institution.

Now you are drawing our attention to the fact that possibly we might have meant to have included them in some rights in the value of the surplus.

Senator HOLLAND. You do it after January 1, 1957, because people who are not stockholders that are dealt with, you require to have the same interest in reserves and surpluses created after the merger as will the associations, and I think that is sound approach.

That is the cooperative principle. But in my view you are not on sound ground if you are unwilling to apply that same cooperative principle to the reserves now on hand.

And it won't disturb the operation at all. You could have the same conditions that the reserve surpluses now on hand should be abandoned by the Government, should become an asset, be maintained as a reserve, may not be used in connection with the dividends or the like, and can be distributed only on liquidation, but when distributed on liquidation, that they shall be regarded as belonging to the people who created them, whether they were members or nonmembers. I see no way to get away from that.

Mr. HALL. I think that it is possible to give this construction to the language, and I do not think that there would be objection to it.

Senator HOLLAND. You have no objection to making the broader principle applicable to the second part of your recommendation?

Mr. HALL. That is right.

Senator HOLLAND. You stand by your recommendation No. 1, the first part of it, that those OFI's that are bona fide cooperatives should have the right at the time of merger to come in and become stockholders; is that it?

Mr. HALL. And have voting rights in that regard.

Senator HOLLAND. I think I understand your suggestion.

Senator MUNDT. We had testimony yesterday that a big percentage, I have forgotten how large, of the OFI's who had helped to create the surplus had subsequently gone out of existence. What was the percentage you gave us, Governor?

Mr. TOOTELL. There are 84 OFI's at the present time who do business with the credit banks out of a total of about 1,200 that at some time or other since 1923 have done business with the credit banks.

Senator MUNDT. Had the remainder of those 1,200 continued in operation, they would be entitled under this interpretation that you have agreed to with the Chair, to their pro rata share of the surplus in case of dissolution.

Since they no longer exist and no longer function in that capacity, what is your suggestion as to who is entitled to pick up the dividend that they would have gotten had they been in existence?

Mr. HALL. I think as a very practical matter it had to be left in there for the benefit of those who remain. I see no other alternative to that.

Senator HOLLAND. And if there are some who do not have legal existence or legal representation, the Government can reach in and expropriate that part of the undistributed assets at the time.

They have done it in the States time after time after time with reference to banks that have been liquidated, and I have no doubt that precedents exist in the Federal law, though I am not familiar with that.

Senator MUNDT. You mean that the Government would take that part of it?

Senator HOLLAND. Oh, yes. Many States have laws to the effect that unclaimed deposits after so many years are expropriated by the State.

Senator MUNDT. That is right; but I understood them to say that they felt it should be included in the pool to enlarge the dividends of those who continue.

Senator HOLLAND. That is what I am afraid it might be construed as, and I think that you are asking for trouble when you put that kind of a provision in because it is a departure from the soundly cooperative practice that is recognized in your operation after January 1, 1957. You recognize everybody from that time forth equally——

Mr. HALL. That is right.

Senator HOLLAND (continuing). That creates any reserve, and I think that that same principle should apply to this watermelon that is here that you are going to cut, but upon which you are going to build to create a larger, continuing reserve.

Why ask for trouble by applying in your legislation an unsound rule to the ultimate distribution of that reserve, if it should ever be distributed?

Senator MUNDT. That was my question as to that slice of the watermelon loan which is unclaimed because of the fact that some of these OFI's have ceased to function.

Now, as I interpreted what you said, you said you just put that back in the watermelon and give each of the participants a bigger slice, and I understood the chairman to say that is not so.

That particular unclaimed slice should be returned to the Federal Government as in the case of unclaimed deposits in a lot of banks which are closed.

Senator HOLLAND. What I said is that that remedy is available to the Government at that time if it wants to exercise it.

It does not have to exercise it. The thing I do not want is for us to include a formula in the legislation when we pass it that obviously conflicts with sound cooperative legislation.

In other words, at that time, 50 years from now or 100 years from now, when a few of us who are here won't be much interested in what is going on, is the time to take care of its own problem of distribution, but I do not want to see an unsound principle of participation in that distribution incorporated in this legislation.

I think we are just asking for trouble if we do.

Mr. LYNN. We would agree thoroughly.

Senator HUMPHREY. What happens, Mr. Chairman, is that this accumulated reserve becomes a part of the general new capital for the consolidated operation, the intermediate credit bank operation.

Senator HOLLAND. Subject, however, to the condition in the legislation that it may not be used for dividends.

Senator HUMPHREY. That is what I mean.

Senator HOLLAND. It is a continuing reserve.

Senator HUMPHREY. A continuing reserve of working capital, so to speak.

Senator HOLLAND. A continuing reserve to be drawn upon in the event there are losses that destroy your capital structure.

Senator HUMPHREY. Now let's assume that something should happen so there would be dissolution of this whole enterprise. That so-called, as you put it, continuing reserve would be eligible for distribution on a priority basis first to the PCA; would it not?

Senator HOLLAND. First to the people who created it, and most of it would have been put in there by the PCA's. I think our testimony yesterday showed 80 percent had been put in by the PCA's. Certainly nobody else would have any claim to that.

Senator HUMPHREY. But it would be eligible for distribution to the people who bought the initial stock in this farm intermediate credit bank operation.

Senator HOLLAND. To the people whose operation as interest payers created the reserves.

You see, this reserve would never have come into being if the concern had just run on an even line here not to create any reserves.

Senator HUMPHREY. Yes, I understand.

Senator HOLLAND. It has been created by people who paid more than they had to pay to keep the organization merely solvent. So the general application of a cooperative law to this situation would require our recognizing this as belonging to the people who created it.

Senator HUMPHREY. That is right.

Senator HOLLAND. Eighty percent of it having come from PCA sources as I understood the testimony yesterday, is that right, Governor Tootell?

STATEMENT OF R. B. TOOTELL, GOVERNOR, FARM CREDIT
ADMINISTRATION—Resumed

Mr. TOOTELL. That is right.

Senator HOLLAND. Approximately 20 percent from other sources. I do not think there is anything for us to worry ourselves about here except to be sure that the provision we have in the legislation is unassailable in the soundness of its application of cooperative law to this situation.

Senator HUMPHREY. The only point I was trying to suggest and it may only be a theoretical point, later on unless this is made rather clearly in the legislative history concerning this bill or in express statutory language, that you are apt to have one of these OFI's that apparently went out of existence or ceased to function come back by some thin thread of continuity of life and try to stake out some kind of a claim, even though it has not been an operating financial institution for a considerable period of time. You sometimes find the charters along with officers in sort of cold storage, and when there is a melon to be cut up, why they seem to have new life.

Now we have witnessed this in terms of even such things as rebates on telephone rates and gas rates where apparently a business institution went out of business, but you would be surprised how quickly there is resurrection of the economic body here on this.

What I was concerned about was whether or not we are spelling this out by intent or legislative history to obviate such a chance.

Senator HOLLAND. You cannot preclude that chance.

(Discussion off the record.)

Senator MUNDT. May I ask a question about the other phase of your recommendation?

We seem to be in general agreement about the second part and I did not sense any objection to that of any serious nature on the part of those testifying yesterday for the Farm Credit Board, but the Farm Credit Board did suggest that this matter of including voting rights and privileges be not extended to the OFI's but that you participate as people would participate in dividends of a co-op to which they did not belong. They would get the patronage dividends and benefits but not have voting rights.

How seriously do you regard your insistence on voting rights and privileges?

Mr. HALL. Our feeling was that those other financial institutions which are farmer-operated, farmer-owned and controlled, should have the opportunity to put up their pro rata share of the initial cost, and get a certificate, a class of stock for so doing, and in conjunction with it would flow ownership including voting rights and privileges that usually appertain to such evidences of contribution.

We felt that that was desirable. That does not impair or diverge in any way from the concept of farmer ownership and control.

It so happens that in addition to production credit associations which are farmer owned and controlled, that there are other cooperative associations which have, for some time, used the services of the intermediate credit banks which are also farmer owned and controlled.

We felt that they ought to be brought in to that degree.

Senator MUNDT. I understand. With that definition in mind, Governor, would that meet the recommendations and the point of view of the Farm Credit Board?

Mr. TOOTELL. Senator Mundt, it definitely was not in the thinking of the Farm Credit Board at the time they recommended this legislation.

Senator MUNDT. They have delimited it now, of course, to just one phase which is farmer-owned and farmer-operated on the cooperative principle.

Mr. TOOTELL. Yes.

Senator MUNDT. So they have got quite a few limitations.

Mr. TOOTELL. I am sure our Board would raise the question as to what restrictions and responsibilities those cooperatives would be willing to assume in return for the privileges that they would be granted under the proposal of the Farm Bureau.

The production credit associations are federally chartered, they are subject to Federal supervision, they are restricted as to territory, and they have certain other limitations on them that we would find very difficult to reconcile with the position of the co-ops that are proposed to come under this.

As a matter of fact, I just do not know how you could give them anything but a preferred status in comparison with the PCA's which make up the great body of the users, and I am sure that the Federal Farm Credit Board would feel that the purchasers of the intermediate credit banks should be restricted to the production credit associations which are federally chartered institutions and are part of this great system that Congress created in 1933. The Board believes that the provisions of the bill and the history of the legislation give ample assurance to the OFI's that they would always have equal access with the PCA's, to the discount facilities of the intermediate credit banks.

Senator MUNDT. I think the Governor makes an interesting point there. I would like to hear the comment of the Farm Bureau people.

I think he points up the difficulty, it is rather hard to commingle voters who assume different types of responsibilities.

We do not do that here in the legislative business. We have delegates from Hawaii and the Philippines who exercise certain functions, but do not exercise the function of voting because they do not accept certain responsibilities. Now do you recognize the validity of that point of view, and if so, what is your response?

Mr. HALL. Yes, we recognize the validity of the point of view.

However, as Governor Tootell has just commented, it would seem that instead of changing the privileges and the rights of the farmer-owned and controlled co-ops which are part of the other financial institution group, that they are actually cementing them more firmly into the privileges that the act confers.

Senator MUNDT. How about the responsibility?

Mr. HALL. Well, what responsibilities are there? The responsibility first here is that these farmer-owned and controlled co-ops put up their money in the same fashion as the production credit associations put up their money.

In so doing, we would suggest that they be afforded this right to one number, one co-op vote. I do not know what responsibilities you can assert other than that the paper that they offer be of the same standard that PCA paper is.

Now that does not seem to be a type of responsibility that is any different from what it has been in the past.

Senator HOLLAND. Is it true that many of the members of the PCA's are themselves cooperatives, cooperative associations?

Mr. HALL. I cannot answer that. I do not believe that members of production credit associations as such are cooperative associations, are they?

Mr. TOOTELL. Not cooperative associations, no.

Many of the farmer members of PCA's are members of other cooperatives.

Senator HOLLAND. But cooperatives as such cannot hold membership in the PCA's?

Mr. TOOTELL. That is right, sir.

Senator HOLLAND. All right; then how do you meet this point, that if you start recognizing other co-ops than the PCA's, you are going to affect the desirability of membership in PCA's?

Here is a co-op that is trying to render a rounded service to its members and it will say to its members who are in PCA: "Well, I will take a membership of my own and I do not have to be restricted by territorial boundaries or anything of the kind. There is no use for you, my members, being also members of PCA, we will come in here and operate as a separate unit, notwithstanding the fact that we cut across the lines of the PCA's that serve this general area."

Don't you think it would be a weakening factor with the PCA's to have a situation under which co-ops could themselves become members on an equal basis with PCA's stockholders?

Mr. HALL. I am not sure I gather your picture.

Let me see if I can state it.

Senator HOLLAND. Let me make it plainer.

You have a PCA here operating in a territory which is assigned to it. There may be 10, 12, or 20 cooperatives, marketing cooperatives, care-tending cooperatives and the like operating in that same territory, but not exactly under the same line.

Senator MUNDT. It should be in the same line.

Senator HOLLAND. Suppose each of them says "Well, here, why should we continue to let our members go over to the PCA when we can get stockholding representation in the Intermediate Credit Bank and take care of them directly and take care of them just as well as the PCA's have been taking care of them and have all of our services to them joined together under one roof and in one organization."

Wouldn't you find each of these co-ops in that area subjected to the temptation of withdrawing its members who were members of PCA and going it alone, going direct to the Intermediate Credit Bank?

Mr. HALL. I suppose some of that.

However, there exists now this group, a small number of cooperatives, which are in that position. There has been no difficulty of this kind develop.

Senator HOLLAND. They have not been voting members though.

Mr. HALL. No, they have not been voting members.

Senator HOLLAND. And they have not been able to therefore represent their people, their individual members as effectively as they would if they became voting members, holding office let's say, some of them in the Intermediate Credit Bank's official boards.

It seems to me that it would be a weakening maneuver that would be sure to break down to some extent the strength of the PCA's.

How do you meet that?

Mr. HALL. Well, in the first place this was viewed in terms of the fact that there are only 24, I believe, of the 94 other financial institutions now discounting paper of the Federal Intermediate Credit Banks which are of the class concerning which we are speaking.

Senator HOLLAND. Would you limit the right to become stockholders to those who had done business in the past?

Mr. HALL. This was the intention.

Senator HOLLAND. You would cut off the principal as of January 1, 1957?

Mr. HALL. This I have to say was the intention when this recommendation was phrased.

Mr. LYNN. I think that is exactly right, and we do not want in any way to open up a floodgate here with regard to this, because we have a great deal of confidence in the Federal Farm Credit Board and in the Administrator and we simply bring this up as a problem that does exist.

We have had a lot of questions raised about it, and within the scope of the legislation and without weakening the system in any way, working toward the objective that we all seek, if the Congress or the Administrator can recognize this principle without weakening the system, we would like to see it done.

However, we would not want to open up the thing, Senator Holland, to new cooperatives that might want to come in.

Senator HOLLAND. How would you justify confining this right of stockholding and full participation to a limited number of co-ops who have participated in it up to this time, and deny that same right to co-ops who would participate after January 1, 1957?

Mr. LYNN. These new ones certainly would not have contributed anything to the whole institution, and I think you would be justified in saying those in existence now who are using these facilities would be limited.

Senator MUNDT. Is there another difference?

I am not sure, but Governor Tootell said something about a Federal charter and I think he said Federal audits.

Mr. TOOTELL. Examination.

Senator MUNDT. Do your 22 institutions have Federal audits and examinations or would you have them subject to Federal audit and examination if they became voting members; or do you have in mind giving them sort of a preferred status so they are voting members but do not accept the responsibility of subjecting their books to a Federal audit?

Mr. LYNN. We would not want to put them in any preferred status, Senator Mundt.

If they are going to have the privileges, these 24 that we are speaking of, they ought to be willing to accept the Federal audit.

Senator MUNDT. I think it would be a protection that the PCA's have a right to insist upon, because for whatever it is worth, the Federal audit should have a certain salutary effect on the fiscal management of any financial institution.

Mr. LYNN. That is right.

Senator HOLLAND. Thank you very much, gentlemen.

The committee will recess until 2 this afternoon.

(Whereupon, at 12:05 p. m., the committee was recessed to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

Senator HOLLAND. The subcommittee will please come to order.

We will now hear you, Mr. J. W. Sartwelle.

STATEMENT OF J. W. SARTWELLE, VICE PRESIDENT, HOUSTON AGRICULTURAL CREDIT CORP., HOUSTON, TEX.

Mr. SARTWELLE. My name is J. W. Sartwelle, from Houston, Tex.

Senator HOLLAND. Glad to have you testify. Go right ahead, sir.

Mr. SARTWELLE. I appreciate the opportunity to appear before this committee. I have a prepared statement, but I forgot a few remarks that I would like to interlineate in it.

My name is J. W. Sartwelle, of Houston, Tex., and I am the president of the Port City Stockyards Co., in Houston, Tex. In such capacity I have close contact with the producers of livestock along the gulf coast and eastern section of Texas as well as the southwestern portion of Louisiana.

I am a director and vice president of the Houston Agricultural Credit Corp., a longtime director of the Texas & Southwestern Cattle Raisers Association, founder and past president of the American Brahman Breeders Association, and founder and past president of the Houston Fat Stock Show and Livestock Exposition.

I mention those not in any glorification but to prove my interest, and longtime interest, in the welfare of agriculture, and particularly livestock.

I am also a ranchman, having a ranch in Calhoun, Jackson, and Matagorda Counties, Tex., have an additional small ranch in Lavaca County, Tex., and have been engaged in this business since 1911, although the lands have been in the family for about a century and a quarter.

During the early days, I have paid interest as high as 13 percent per annum and have had national banks tell me they would as soon lend money on a school of redfish in the Gulf of Mexico as on a herd of Texas cattle, and in times of tight money and distress the cattle-loan business was confusion confounded.

Right here let me say that a cattle or other agricultural loan company, whether OFI or PCA, or wearing any other brand, is only an organization to perform the mechanics of the loan, to receive the application, investigate the borrower and his collateral, and to keep in contact with both until the loan is repaid.

They do not have the money or treasury to carry the loans they make, and accordingly require some bank of discount that has a knowledge of the several lines of agriculture to be served.

Before the passage of the Federal intermediate credit bank law, our only source was the national banks or other moneylenders. And these loan companies would switch that paper all around the country.

A national bank has its duty to the Federal Reserve System and to

its depositors to keep itself liquid, and it is just no place for what we call short-time agricultural paper.

The passage in the early 1920's, by you gentlemen of the Congress, of the law setting up the Federal intermediate credit banks was the most constructive action in the economic history of this country affecting the livestock industry—ending the exorbitant interest rates and the utter confusion in financing which had prevailed before, and putting the livestock-loan business on an entirely different basis, method, and foundation.

This will go down as one of the great acts of Congress, easily comparable to the law establishing the Federal land-bank system.

The record of the several intermediate credit banks, especially the one of Texas, speak for the constructive validity of the system, and their debentures have met a favorable response from investors and now enjoy an acceptance and confidence of which you gentlemen of the Congress, the FICB's, the Farm Credit Administration, the livestock producers, and all of the lending agencies which rediscount with the Federal intermediate credit banks, can be justly proud and thankful.

While the original act setting up the Federal intermediate credit banks was wisely drawn broad enough to encompass all agricultural products, the first efforts of, at least, the Texas bank were largely that of rediscounting for cattle-loan companies and selling debentures based on livestock collateral.

And, indeed, under and through doubts and uncertainties and adverse criticism from some of the former livestock lending agencies, these Federal intermediate credit banks established and gained the confidence of investors in their debentures to such an amazing extent that, although less than 10 years old, they weathered the terrible depression of the early 1930's.

They were so well established in the confidence of the investing public that the Government had a paved road in them on which to launch the production credit corporations and their children—the production credit associations, as well as the bank of cooperatives.

This record of the Federal intermediate credit banks has been so constructive and magnificently solid that you gentlemen of the Congress, burdened with the welfare of agriculture, should give long pause before making any change whatsoever in the present financial structure or management of the Federal intermediate credit banks, especially in these critical days for agriculture generally, but specifically the livestock industry.

Governor Tootell stated yesterday that the total of all agricultural credit extended through the several agencies of the FCA amounts to only 8½ percent of the total agricultural credit used in this country.

I was particularly interested in that. It was news to me. But what a pitifully small portion. What a magnificent opportunity for expanded service. It calls for all to work together. And this is no time for strife among ourselves; the enemy are outside forces who would stop us all.

And I would like to add right in there that I have always regarded the PCA's most highly. I have encouraged the establishment of several of them. They have done a magnificent job. And I have been just a little amazed and astounded at some of the things that I have learned up here.

I do want to say, however, that I think the Farm Credit Administration from the very first right down to this good day has done a magnificent job. In fact, there is nothing like it in economic history anywhere in the world, the present setup that we have.

The Governor of the Farm Credit Administration and the Farm Board were and are, of course, under mandate of the Congress, and have presented bills that we are considering here in the Senate and the other day in the House.

But the Congress has—this Congress—the power that the other Congress had. One Congress does not give any mandate to the other. If there ever was a time for Congress to pause and to look around, I think it is in this time of stress and strain that has overwhelmed agriculture.

And down in certain parts of the country there is a terrible drought that really is pitiful, is so extreme in some cases.

If, however, in the alternative you decide that these institutions should be sold and all Government money taken out of their financial structure—but I submit again, when in all of the history of agricultural development, has so much been done with so little?—and I would also add that the retirement of this capital is purely fictional, Senator, as it is proposed to put this money that is retired into the revolving fund. I haven't any objection to your doing that, but it is a fiction, anyway.

Then I think in fairness that the three amendments below suggested should be adopted and made a part of this bill, S. 3564, by this committee.

I would like to submit, instead of the amendments that I wrote, the amendments that were adopted by the other OFI's of Texas, as represented by Mr. Campbell.

(The amendments are as follows:)

AMENDMENTS TO H. R. 10285 BASED UPON SUCH BILL AS IT WAS INTRODUCED ON
MARCH 29, 1956

Amend page 2, lines 11, 12 and 13 by changing the remainder of the sentence following the words "merged banks" so that the same shall read "and to acquire an interest in the ownership of such merged banks on a basis comparable with the production credit associations".

Amend page 6, line 15 by adding after the words "production credit association" the words "or other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 6, line 23 by adding after the words "production credit associations" the words "and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 7, line 4 by adding after the words "associations of the district" the words "and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank of the district,".

Amend page 7, line 8 by adding after the words "production credit association" the words "and other financing institution borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 7, line 12 by adding after the words "production credit associations" the words "and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 7, line 13 by adding after the words "production credit association" the words "and other financing institution borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 7, line 21 by adding after the words "production credit association" the words "or other financing institution borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 8, line 3 by adding after the words "production credit associations" the words "and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank".

Amend page 8, line 5 by adding after the word "association" the words "or any such other financing institution".

Amend page 8, line 8 by adding after the word "associations" the words "or other such financing institutions".

Amend page 8, lines 9 and 10 by eliminating the words "and participation certificates".

Amend page 8, lines 11 and 12 by eliminating therefrom the words "and participation certificates".

Amend page 8, line 13 by eliminating the words "or certificates".

Amend page 8, line 16 by eliminating the words "or participation certificates".

Amend page 8, lines 20 and 21 by eliminating the words "AND PARTICIPATION CERTIFICATES".

Amend page 8, line 23 by eliminating therefrom the words "on all participation certificates owned".

Amend page 9, line 2 by eliminating therefrom the words "or participation certificates".

Amend page 9, line 6 by eliminating therefrom the words "of the participation certificates held by the".

Amend page 9, line 20 by eliminating therefrom the words "and participation certificates".

Amend page 10, lines 2 and 3 by eliminating therefrom the words "and participation certificates".

Amend page 10, lines 21 and 22 by eliminating therefrom the words "and participation certificates".

Amend page 10, line 25 by eliminating therefrom the words "and participation certificates".

Amend page 11, line 14 by eliminating therefrom the words "and participation certificates".

Amend page 11, line 20 by eliminating therefrom the words "in participation certificates".

Amend page 11, lines 22, 23, and 24 by eliminating therefrom the words "The recipients of such patronage refunds shall not be subject to Federal income taxes thereon". (Editorial comment: There is no legal justification for such patronage refunds to be tax exempt and the request for such exemption weakens the bill.)

Amend page 12, line 2 by eliminating therefrom the words "and participation certificates".

Amend page 12, lines 8, 9, 10, and 11 by eliminating the entire sentence which reads "Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto".

Amend page 12, line 20 by eliminating therefrom the words "and all participation certificates at face amount";.

Amend page 12, lines 24 and 25 by eliminating therefrom the words "and the holders of participation certificates pro rata".

Amend page 17, line 4 by adding after the words "production credit association" the words "and capital stock of any other financing institution borrowing from and rediscounting with the Federal intermediate credit bank" and by adding the words "and under regulations promulgated by him" immediately following the words "in such amounts".

Amend page 17, line 6 by adding after the word "association" the words "or other such financing institution".

Amend page 17, lines 10 and 11 by adding after the words "production credit association" the words "or other such financing institution".

Amend page 17, line 11 by adding after the words "class A stock" the words "or other capital stock".

Amend page 17, line 12 by adding after the words "such association" the words "or other financing institution".

Amend page 17, line 13 by adding after the word "association" the words "or other financing institution".

Add another section to the bill which should read substantially as follows:

"SEC. 110. (a) Section 5 (b) of the Farm Credit Act of 1937, as amended, is amended by adding the words 'and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank' immediately fol-

lowing the words 'production credit associations of the district' in the third sentence of said section 5 (b).

"(b) Section 5 (d) (2) of the Farm Credit Act of 1937, as amended, is amended by adding the words 'and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank' immediately following the words 'production credit associations' appearing therein.

"(c) Section 5 (d) (2) (B) of the Farm Credit Act of 1937, as amended, is amended (1) by adding the words 'and of the other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank' between the word 'associations,' and the word '(collectively)' wherever they appear therein; (2) by adding the words 'and other financing institutions borrowing from and rediscounting with the Federal intermediate credit bank of the district' immediately following the words 'production credit associations of the district' where the same first appear therein; (3) by adding the words 'and other such financing institutions' immediately following the words 'such production credit associations' where they appear in the last sentence thereof; and (4) by adding at the end of said last sentence the words 'in voting for directors who shall be elected by production credit associations and other financing institutions of the district, each such association and financing institutions shall be entitled to one vote for each share of the capital stock of the Federal intermediate credit bank of the district owned by it'."

Mr. SARTWELLE. I urge adoption of the amendments, not only as a matter of fairness, but for these more broad and farsighted reasons:

1. For the ultimate welfare of all agriculture—the farmer, dairyman, poultryman, and livestock raiser—all of whom have peculiar and particular problems of finance, production, marketing, and distribution.

2. That the ownership and management of the rediscounting agency (the FICB's) should not be turned over to one segment or faction, but open to all who rediscount regularly.

I would like to add right there that the act of 1923 was a broad channel of your old Uncle Sam understanding that we were in a terrible emergency, trying to take care of the farmers and ranchers and the producers of this country.

And I would like to see that channel kept broad, instead of channeling it into a narrow stream. I think it is just like trying to bring the water of the Mississippi River and the need for it through Rock Creek here in Washington.

3. Membership on the boards of these banks of and by persons representing the old-line loan companies can make immeasurably constructive contributions of experienced management, which can, and will, unquestionably encourage and retain the confidence of not only the borrowers but of the investing public.

The cattle industry does not seek either favoritism or subsidy, but does earnestly desire a strong rediscounting agency that understands its peculiar problems and will stand the strain and stress of time.

Much has been said about the slowness to use the FICB credit arrangements and of the mortality of the early OFI's and of the growth of the PCA's after 1933.

I think that a word of explanation by an old graybeard like myself who lived all through that might be of some interest, because quite frankly, since I have been up here I haven't heard of anything except the world beginning in 1933.

There was little knowledge of the 1923 law among the people, but chiefly it was the new philosophy of borrowing money, Senator.

Up to that time, if you were going to borrow money—and I do not care whether you were a small farmer or whether you were a pretty

good-sized ranchman—you stood around with your hat under your arm in the presence of the moneylender. The Good Book says that the borrower is a servant to the lender, and it is still pretty generally true.

But in the early 1920's the idea of investing money in a company, putting a little money in to form a company, and then borrowing money from that company, was so unheard of and it was so strange that although I tried—I was not wanting to form one; I was not wanting to run any of those companies; I was just trying to help some of my neighbors; I was too deep in to get any help out of them; I was trying to help the local banks and neighbors—I could not get any interest in the thing.

And one banker—and he was a good banker, a private banker—he would not talk to me at his outside desk, Senator. He said when he got the general idea, “You come on back in the board room.”

And when I explained this new law that had just been passed by the Congress, and told him what it would do, he hit his fist on the table and he thundered and roared, and he said, “I will tell you now before I will permit anything in Jackson County like that”, he said, “I will do thus and so.”

If you can get away from that old 8 and 2, why, this law has already had its effect.

Senator HOLLAND. That very action justified the new act, I think.

Mr. SARTWELLE. Absolutely. Although this percentage—and that was news to me and I was glad to get those exact figures that Governor Tootell was quoting—here is a little $8\frac{1}{2}$ percent of agricultural credit that works as a stop. These moneylenders have realized that that much margin has changed the situation. And while in the early 1920's and in the early 1930's a national banker did not want to see a cowman come in the bank because he knew he was not going to deposit, he knew he was going to try to borrow—he didn't have any money to lend him.

So, there isn't any great wonderment that there were not a lot of OFI's started there in the early twenties. They were not known. Conditions were bad.

When the depression of the early thirties hit, I do not have to tell even these young men around here what happened. The great, long- and well-established companies folded up. And naturally, many of these loan companies went under. My surprise is that as many of them existed and came through as did.

After 1930, they were not formed because we didn't have the money. We have paid taxes. My family has paid taxes in several counties in Texas ever since those counties were formed.

I could not pay my taxes in the early thirties for several years. If old Pat Johnson had not come over from Florida and let me sell him 2 or 3 carloads of Brahman bulls, I would not have been able to pay them then.

When you get the act of 1933, Senator, the PCA's were furnished with the capital, and they were furnished with PCC; to wit, wet-nursing them, because that is what it was.

“Here is the money; here is your capital”, they said, and “We will teach you how to lend money on cattle.”

It is a pretty difficult business to successfully lend money on livestock and on agriculture. It is a tricky business.

I will say this, that the PCC has done a wonderful job. The PCA's have contributed to the success and welfare of agriculture to such an extent that, although I am a pretty rugged individualist, I will stand up unabashedly and unashamed and I will tell anybody in the world and all of the world that I haven't any apology to offer for having \$60 million or \$120 million of their money in these banks.

I noticed a headline in yesterday's paper that they had written off \$265 million on the failure of a single engine. I think they did right. I lost a boy in the war. If it is a bad engine, now is the time to find it out.

Mr. Chairman, James Madison, of Virginia, a great patriot, after having served in the legislature and the Revolutionary Army, was at the Constitutional Convention where they were trying to establish our great country on a more solid foundation. I think all of them there were patriots, great patriots. But there was a great diversity of opinion how the thing was to be done.

And Mr. Madison, with his brilliant and incisive mind said:

Well, if men were only angels you would not need any constitution, you would not need any law. But—

he said,

men are not angels, and men are men. And men being men, you have got to pass these laws, and you have got to have a strong executive department that will govern the people, and restrain the people, if it is necessary.

And then he quickly added, he said:

It is just as necessary—

Senator Scott—

that you have a court with the wisdom and the authority to oblige the Government to stay within the law, and to oblige the Government to restrain itself and not oppress, even the humblest citizen.

I am a little worried. I hear a lot of talk about they want to get out from Government supervision, Government control. That is probably a good idea, but sometimes we just change controls. And men being men, when these gentlemen followed the example of this gentleman from out West here somewhere, Minnesota or North Dakota yesterday, that this bill was just the first step, taking the outpost and then come back in here before you gentlemen and charge the citadel, I think that fellow probably had some things in mind that he didn't say. But he certainly was bold enough to tell you that he was going to demand a separate board of directors.

Your incisive mind, I think, got the point. And you asked the governor if he had the power to restrain. He said he thought he did. I hope he does, because if there is not the power of restraint somewhere we are in danger, agricultural credit is in danger.

I was a little amused yesterday in listening to some of these old boys bemoaning the great burden that they were assuming in buying this something over \$200 million worth of assets or considerably over \$100 million of assets by paying down \$13 million and then having the use and control of another hundred odd million or so in the revolving fund, assuming that big burden.

And they were talking much of how they were going to relieve the taxpayers by retiring the Government fund.

I couldn't help but think of what old King Solomon said, and he said this:

It is naught, it is naught to set the buyer but when he goeth his way he boasteth.

Thank you, sir.

Senator HOLLAND. Thank you, sir.

Let me ask you a question there.

Mr. SARTWELLE. Pardon me?

Senator HOLLAND. Before you get away, as I understand it, you are grateful for the organization and the functioning of these concerns as they now exist, but you do not want them to be hurt or weakened?

Mr. SARTWELLE. No, sir.

Senator HOLLAND. You are a little skeptical of this reorganization?

Mr. SARTWELLE. Yes.

Senator HOLLAND. But you have not come out and really opposed it. Just what summarizes your feeling on this?

Mr. SARTWELLE. Well, to summarize my feeling, I would like to see the Federal intermediate credit banks left as they are, in their present management, and under the farm board. I am not blaming the Farm Credit Administration at all. They are under mandate from you gentlemen. They had to come in here.

I think that they have done a magnificent job. They have done a pretty good job organizing this campaign to put over this bill. I think they have done an excellent job on that. It is pretty well greased and oiled. Everything is taken care of, well directed, well led.

Senator SCOTT. Does it have any Texas oil in it, do you believe?

Mr. SARTWELLE. That would be the best. That is my first thought.

But my friend Hub Matthews here and these other gentlemen, Mr. Briggs, have told me personally, and I heard the governor say that this thing had to go through. I am not one to butt my head against a brick wall.

On the other hand, I am that kind of a fellow, and so are you, that I will stand up and say what I think. And I think that it ought to be left like it is, until conditions settle in agriculture.

I think it is purely the problem for Congress, because Congress has told these people, they had to bring this bill in. But, certainly, Congress can stay the hand of it.

I do not know what the end is going to be, particularly in cattle. You have noticed that I have been talking about cattle because I am familiar with the cattle situation. I am not so familiar with the crop situation. I have never been a farmer except a rice farmer and that is when conditions were hard.

Now then, if we cannot leave it that way, then I think that the users of the FICB ought to go into that thing on an equal basis. I just cannot help but believe that everybody that is for the good of agriculture could sit around this table and give each other some assistance and counsel about making a good loan, and bettering the situation.

And another thing, this country is a pretty big country and it has a lot of divergent interests and a lot of divergent philosophies. Some people want to be cooperators and some of them, those oldtime people, some of them want to be PCA's and some of them do not.

I have had this experience. I will make this kind of confession to you if you want that. We got out and we worked just as hard as, well, you know what I mean.

Senator HOLLAND. I am not strong for confessions, I will tell you that.

Mr. SARTWELLE. And we raised a little old capital and we gradually built it up, by the hardest work.

And one of my dearest friends, who was a director of the company, and who could have eaten us up in one gulp, if he had had a bad rice crop, kept insisting on borrowing money for rice. I had been in rice and you just gamble unless you have got Government support. You can lose everything but your wife and your car in one season.

And I opposed him and I whipped him out although the balance of the directors were largely a bunch of "yes" men. Many of these companies are run by one strong man, and he is the manager or the president of it.

Senator HOLLAND. You do not expect us to pass any law to change that, do you?

Mr. SARTWELLE. No, I do not want them to do that. I have no apology for that. I went before the Federal Board—that is the big bank board—I kept that darn rice business out of our company. And I told this gentleman, I said, "Now, Elmer, if you want to form a company to discount the paper on rice, why you rice growers put up the money."

And he did that, he did that very thing.

Now, then, there are many PCA's—I can call names if I have to do it—that are interested in one feature for the business. They do not want some cowman coming in there and taking their money, either. Any they are self-governing institutions.

I think this may be significant to you. I asked one of these authorities around here the other day what the average loan in that territory north of the Ohio and east of the Mississippi would be—taking in all of the New England States and everything like that.

After a little cogitation he said, "Sartwelle, we, of course, have got some bigger loans, but we have got a whole lot of smaller loans and the average loan would be about \$5,000."

Well, now, in our little old company—and we are still very small, and I am very proud to say that the majority of our loans are dairy loans, and I want to testify here that we were the first people that I know of in the United States that gave a dairy cow credit as a production unit, long before there was any PCA's—those old boys had good sense to get a good name, "production"—most of our loans were to dairy. We have loans of \$300,000.

All of this talk about us taking the cream of the crop or anything like that—I have never found it in our company. I was on the loan committee and very active for many years. And I have got a great desire to help people except I am not figuring on making a bad loan, if I know it.

But as Mr. Wilson said the other day, he didn't ever make any bad loans. But when you get a drought and you get a drop in the market it is mighty funny how quick a good loan gets bad.

Senator HOLLAND. Thank you very much.

Mr. SARTWELLE. Thank you.

Senator HOLLAND. It has been a pleasure to hear you. Is there anybody else that has to leave right away? If not, I will start at the top of the list and come on down. We will call Mr. P. O. Wilson.

STATEMENT OF P. O. WILSON, SECRETARY, NATIONAL LIVE STOCK PRODUCERS ASSOCIATION, CHICAGO, ILL.

Mr. WILSON. I am speaking for the National Live Stock Producers Association, a livestock sales agency with headquarters in Chicago.

First, we wish to express our sincere appreciation for this opportunity to appear and present the view of the National Live Stock Producers Association on the farm credit bill, S. 3564.

The National Live Stock Producers Association has had a continuing interest in and experience with the Federal intermediate credit bank system since April of 1924. This, you will recognize as being shortly after the original act was passed which established the twelve intermediate credit banks.

The National Live Stock Producers Association was organized early in 1922 for the purpose of developing cooperative livestock sales agencies to represent livestock producers in the sale of their livestock on the principal markets of the Nation.

In the short period of 2 years, between 1922 and 1924, the organization had found that there existed a real need on the part of the livestock producers and feeders for a sound, reliable source of credit. They, therefore, appreciated the value of the original Federal Intermediate Credit Bank Act and plans were developed for organization of credit corporations necessary if the livestock producer and feeder members were to be afforded use of discount privileges provided in this act.

Our first credit corporation, known as Producers Livestock Credit Corp., opened for business at St. Louis, Mo., in April of 1924. Our organization expanded this phase of its business in 1930 when, with the assistance of the Federal Farm Board (and I would say not only the assistance but the insistence) it organized four additional credit corporations, namely, National Finance Credit Corporation of Texas, Fort Worth, Tex.; National Livestock Credit Corp., Oklahoma City, Okla.; Producers Livestock Credit Corp., Denver, Colo.; and Tri-State Livestock Credit Corp., San Francisco, Calif.

It also made a substantial investment in the stock of the Wasatch Livestock Loan Co., Salt Lake City, Utah, now known as Producers Livestock Loan Co., a credit agency which had been organized in 1924 by 99 livestock producers of the Salt Lake area.

With this brief statement concerning our history in the credit field you will recognize that the National Live Stock Producers Association now has a direct interest in six credit units. All of these are owned on a stock basis by National Live Stock Producers Association, its member cooperative livestock sales associations, and the livestock producers and feeders whom they serve.

The volume handled by these 6 credit units, while not large, varies from around \$30 million to \$45 million.

That is the loans on the books at any one time. At the end of last year it was \$33 million.

Starting in 1924 we have observed the growth and expansion of the services of the Federal intermediate credit banks.

We have had a chance to observe these, because we used them.

We were users of the banks' discount privileges when the discount rates were as high as 5½ percent. As the investing public gained confidence in the system and with the increased volume which was brought into the system through the organization of the production credit associations in 1933, we have been favorably impressed with the improvement in discount rates, which reached a low of 1½ percent.

They are back now to 3¼.

The discount rates which our credit corporations pay are of vital importance to our farmer and rancher borrowers. The fact of the matter, Senator, is that is the one key to this whole discussion, interest rates.

Volume of loans, plus sound operating policies observed by the banks have played a very definite part in determining the cost of money which was secured from the investing public through the sale of debentures by the banks.

As the banks have proven their soundness, and volume of loans for discount have increased, there has been a trend toward more satisfactory discount rates for our farm and ranch users.

Recently the upturn in money markets has offset some of the gains that we had experienced before.

This bill, S. 3549, is presented by the Federal Farm Credit Board to meet a directive from Congress which, we understand, is supposed to tie into the Government's economy move.

It is our understanding that Congress wishes to take the Government out of the farm credit business and dispose of the stockholdings which the Federal Government now has in the farm credit system.

This is to be accomplished through sale of the stock in the various banks in the farm credit system to their users. This was the procedure followed in the case of the Federal land banks, where the stock which was owned in the Federal land banks was sold to the users of the banks; namely, the farm loan associations.

Last year the same principle was followed in amending the Farm Credit Act when legislation was approved providing for the sale of the stock owned by the Federal Government in the cooperative banks to the users of these banks.

In the same bill was a provision under item 2, for the sale of the PCC, the production credit corporations, to the PCA's, but that was withdrawn.

In both of these cases—the Federal land banks and the cooperative banks—no change was made in the service nor in the organizations to be served. The law provided for the sale, over a long period of time, of the stock belonging to the Government to the users of each of these two banks.

So far as we have been able to determine the users of these banks were treated equally. Each was given the right to buy stock on the basis set forth. The users of both the Federal land banks and the cooperative banks have helped to build such reserves and surpluses as were in the two banks and these were permitted to be retained in the banks even though the ownership was being transferred from the Government to the users.

This bill—S. 3549—does not follow the pattern set by Congress in handling either the Federal land banks or the cooperative banks. Bill

S. 3549 provides a plan for merging a bank (Federal Intermediate Credit Bank) with a corporation (Production Credit Corporation), each of which has a different service to perform and this service is rendered to different types of organizations.

In the case of the production credit corporations, their service is limited to the production credit associations; while the Federal intermediate credit banks discount paper for the production credit associations, and also serve other discounting agencies and banks.

This bill attempts to merge the two into one corporation and at the same time provide for the continuation of a portion of its services to the production credit associations while denying these services to the other financing institutions.

Senator HOLLAND. What service would be denied to the other financing associations?

Mr. WILSON. The associations come under the supervision of the corporations and would come under the supervision of the merged banks. The financing arrangements which they furnish, additional capital and organization assistance, which is furnished them, under the plan originally set out for the PCC.

This bill goes further and provides for ways of charging to other financing institutions part of the cost of the service which the consolidated bank will make available only to the production credit associations.

This bill completely ignores the fact that the OFI's, from the period of 1923 to 1933, provided the business needed to start the Federal Intermediate Credit Bank System; and that for the period of 1923 to and including the year ending June 30, 1954, the other financing institutions supplied a little more than 20 percent of the total business handled by the combined Federal intermediate credit banks.

During this period of the OFI's contributed to the building of the reserves and surpluses which are now shown in the financial statements of the FICB's. This bill stipulates a specific program to be followed in the case of liquidation of any merged Federal intermediate credit bank in which the savings and reserves of the FICB which have been accumulated over the period 1923 to and including the date this bill becomes law, shall go to the holders of class A stock (Government) and class B stock (Production Credit Associations).

In this the bill discriminates against the OFI's. We strongly urge that fair and equitable treatment demands that this discrimination be eliminated and that the OFI's be credited with their share of reserves and surplus since date of origin in 1923. Otherwise, this bill will give the production credit associations title to equities for which they have neither paid nor helped to create.

This bill limits the sale of stock and the voting rights to one group of users—namely, the production credit associations. It discriminates against all other users (that was not true in the cooperative bank bill, nor was it true in the Federal land bank bill) regardless of their past experience with the Federal intermediate credit banks, their financial responsibility, their financial contribution to the building of reserves of the Federal intermediate credit banks or their obligation to farmers and ranchers whom they serve.

We respectfully urge that this committee consider seriously the purpose for which the Congress provided these two separate organiza-

tions. The Federal intermediate credit banks were established to provide a discounting service for loan companies and for banks, handling agricultural paper.

The production credit corporations were organized for the purpose of organizing, financing and supervising production credit associations. The Federal intermediate credit banks are discount banks which, through sale of debentures to the investing public, can and have obtained large amounts of money to handle the agricultural paper which they discount for users that qualify for their services.

The production credit corporations are not banks in the true sense of the word, but are corporations set up to promote, finance, and supervise the production credit associations. All of their funds are obtained from the Federal Government and cost of operation has been paid by the Federal Government either directly or indirectly.

If this bill becomes law one group of users of the Federal intermediate credit banks will be permitted to purchase the merged banks after there has been merged or transferred to the banks the responsibility of servicing and supervising the operations of the production credit associations.

The result of this merger and sale will be that the production credit associations will own and operate the Federal intermediate credit banks, and the Federal intermediate credit banks will be responsible for serving and supervising the production credit associations, an unsound policy and principal.

There is an added factor that should not be overlooked. This bill, while supposedly intended to take the Government out of the farm credit business, provides for a revolving fund of some \$160 million. This is over and above the investment. This is to be available at all times to assist in financing either the Federal intermediate credit banks or the production credit associations.

Stated in another way with a bit more detail, the Government now owns the Federal intermediate credit banks with an investment of some \$60 million. The Government owns the production credit corporations with an investment of some \$31 million, or a total investment of around \$91 million in the two systems.

Total reserves and surpluses in the two are approximately \$61 million—approximately \$47 million in the Federal intermediate credit banks and \$14 million in the production credit corporations. These figures are taken out of the annual report ending June 30, 1954, if you want to check them.

To take the Government out of this division of the farm credit field this bill, if approved, will offer for sale to the production credit associations \$91 million par value of stock at par, the \$61 million surplus and reserves to be retained in the consolidated bank. This bill will also place in the revolving fund an additional \$160 million of Government funds to be use when found needed by the Governor.

There is nothing here that would prevent the making of this first purchase which requires 15 percent to be purchased within 2 years, of having the Governor advance to purchase the additional stock in each of the 490 some credit corporations, an amount of stock equal to the amount of payment which the PCA will need to make its first 2-year investment.

I say this to you here to let you know that in our opinion the \$160 million revolving fund stil keeps the Government in the business and could keep them in as long as the Governor chose to keep them there.

Our association is primarily interested in maintaining a sound credit structure for agriculture. The rates which our farmers and ranchers pay for money is a very definite item in their cost of operation.

The ownership of the Federal intermediate credit banks is important only as it may affect the ability of the banks to obtain funds at reasonable rates through the sale of the banks' debentures to the investing public.

These rates are influenced by the public confidence in the banks as well as the ability of the banks to maintain sound policies and sufficient volume for economical operation.

The record since 1923 has been good, especially has this been true since their volume was increased through the organization of the production credit associations in 1933. The \$60 million invested in the 12 Federal intermediate credit banks last year—I am referring to the year ending June 30, 1954—provided a structure through which the investing public made available over \$1 billion for use in agricultural credit through the system.

The Federal intermediate credit banks have proven their ability to serve and the public has accepted this system of agricultural credit by their purchase of debentures.

The National Live Stock Producers Association recommends that the Federal intermediate credit banks be left in their present form until a plan which is sound in theory and fair to all users of the system can be developed.

The National Live Stock Producers Association recommends that legislation concerning the production credit corporations be handled separately, that these corporations not be merged with the Federal intermediate credit banks but that they be continued in their limited field of servicing the production credit associations until such time as the production credit associations reach a point where they no longer require this service.

In summary, the National Live Stock Producers Association opposes this bill on the ground that:

1. It merges two institutions which were developed by the Government to serve two separate and distinct fields of activity;
2. It proposed to place the control and ownership of the discount agency in the hands of one group of users, discriminating against all other users;
3. It places on the consolidated bank the responsibility of supervising and servicing the production credit associations, which will be the owners of the bank.

I think you catch my point on that subject, the owner of the banking system being supervised by the bank. It is kind of "You scratch my back and I will scratch yours theory" which does not work too well.

4. The bill provides ways and means of paying the cost of this supervision of the production credit associations out of funds derived from other financing institutions. The OFI's should not be required to pay any part of the cost of a service which is not available to them;

5. In case of dissolution the bill provides for distribution to the production credit associations—the stockholder—of the earnings represented in the present surplus and reserves. This is definite discrimination against the other financing institutions.

I would like to add to this statement that I have presented 1 or 2 questions and then make a further recommendation.

We are trying to economize, at least, that is the theory that we are going on and we are trying to get the Government out of this this business of farm credit.

If this sale goes through, which is provided for in this bill, the borrowers, regardless of what association or what credit unit they are using, must expect to transfer to carry with it the cost of operation of the production credit corporations as they stand today.

I have seen or heard of no testimony that would indicate that they were going to reduce any of that cost. I believe the Governor did mention last week one place where as some of the older employees retired they would not be replaced.

I would like to call to your attention and the other members of this committee the last year that I have the final records on, the operations of the production credit corporations cost \$1,702,000. Those costs must be transferred over to the combined bank. The loss in that last year was half a million dollars and the year previous it was three-quarters of a million dollars in the production credit corporation operation.

That loss was all taken out of the reserves which were built up when the Government had \$90 million invested in the production credit corporation. They are down now to about \$31 million in this last report that I have.

So the revenue from Government money invested in the system has dropped to a point where they are rapidly using up the surplus, at the rate of half to three-quarters of a million a year.

This proposed consolidation carries all of that cost into the consolidated bank, and our revenue will come from the intermediate credit banks to pay for it.

Up to this time the Government has paid for it. The Government has had the surplus in there but up from their funds and they have stood the loss of half to three-quarters of a million dollars annually.

Our borrowers across this country are in no position now, members of this committee, to face additional costs in their operating money. Lower prices for agricultural products, droughts, flood, and the other troubles that we have had puts us in a very bad position now to shoulder this load.

I ask the committee to definitely consider, if you unite the two, and take the Government out, if you do not place that \$1,700,000 over on our interest payers to pick up the bills.

I have said to you that we would like to see the Federal intermediate credit banks left as they are until a plan can be worked out that will be fair to all users. I have not taken this bill. I took the House bill, H. R. 10285, and made the changes necessary, most of the changes necessary, to effect a change in this system which I think gives some chance of working and being fair to all.

I would like the privilege, Mr. Chairman, to take this bill, S. 3564, and make similar changes and submit it at a later date to your secretary. I haven't got those changes written into it today.

Here is what I do in the bill: Remember that I would like to see the two kept what they are. That is, our association would. But if you are going to change it, let us be fair to all users.

My changes will provide these changes in your bill, S. 3564.

Instead of merge, we liquidate. We liquidate the PCC's.

And we transfer the assets, the responsibilities of the PCC, over the district farm credit boards, all over to the district boards, supervision to be arranged as is necessary to carry it.

We certainly do not need the supervision today in our PCA's that we did 20 years ago.

We would provide for the elimination of B stock and issue to all users of the intermediate credit banks certificates of interest, or participating certificates, as you might call them.

And as those certificates were issued they retired the class A stock, until it is retired in its entirety out of the earnings of the intermediate credit bank.

What do you have then? You have the Government's money out. You have this in the form of a trust. The lawyers can tell us how that could be set up.

All users, participating in its operation, still operating under the farm credit board, and with no special services to any—all of the special services will come over in the farm credit board, to handle such as is needed.

And do not misunderstand us on that, we would like to have the PCA's to be given such help and aid as is needed from here to carry on through.

I would like the privilege of filing that with those changes with the secretary of your committee at a later date.

Senator HOLLAND. That will be permitted, provided you get it in before the hearings are closed. They will be closed within the next 3 or 4 days.

Mr. WILSON. I will get in here yet this week.

Senator HOLLAND. All right, sir. Thank you.

Senator Scott, do you have any questions?

Senator SCOTT. No questions.

Senator HOLLAND. Thank you, sir.

(The bill with the proposed changes is as follows:)

[S. 3564, 84th Cong., 2d session]

(The part in which no change is proposed is shown in roman, the part to be omitted is struck through, and new matter is printed in italic.)

A BILL To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956."

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by ~~merging~~ *liquidating* production credit corporations in Federal intermediate credit banks and to ~~facilitate farmer ownership of the merged banks~~ and retirement of Government capital therein in *Federal Intermediate Credit Banks*; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the mainte-

nance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged the Federal Intermediate Credit banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. ~~MERGER LIQUIDATION OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—~~(a) ~~TRANSFER OF ASSETS.~~—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district directed to be liquidated by the Farm Credit Administration and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank the Farm Credit Administration of the district. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank Farm Credit Administration of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States; and the Governor shall cancel an equal par amount of stock of the corporation.

(b) ~~SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.~~—In order to carry out the declared policy of this Act with respect to the production credit associations the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws regulations, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks Farm Credit Administration Districts as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank Farm Credit Administration of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank shall be paid by the Production Credit Associations receiving the service, the rate of charge to be determined by the Farm Credit Board of the District and approved by the Federal Farm Credit Board.

(c) ~~OFFICERS AND EMPLOYEES.~~—Notwithstanding any provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank district Farm Credit Administration shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank liquidation of the Production Credit Corporations and supervision of the Production Credit Associations. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

“CAPITAL STOCK

“SEC. 205. (a) ~~CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.~~—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

“(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall

determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or the participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by production credit associations and other financing institutions as additional

collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own ~~stock or~~ participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the production credit associations or the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) ANNUAL APPLICATION.—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on ~~class B stock and~~ participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, and its reserve for contingencies; ~~and the surplus of the production credit corporation transferred to the bank.~~ No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: First, charges to the reserve account; second, charges to surplus other than that transferred from the ~~production credit corporation of the district;~~ third, charges to surplus transferred from the ~~production credit corporation of the district;~~ fourth, the impairment of ~~class B stock and~~ participation certificates; and ~~fifth, fourth,~~ the impairment of class A stock.

"(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in ~~class B stock to production credit associations and~~ in participation certificates ~~to Production Credit Associations and~~ to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in ~~such class B stock and~~ participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its

face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock ~~participation certificates~~ pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202 (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, *and any other financing organization meeting the bank's requirements* with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers; with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section; unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and*

"(2) (2) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(c) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be

established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank."

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers"; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "~~Federal intermediate credit bank~~ *Farm Credit Administration*"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "*Provided*, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks."

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks."

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "~~Federal intermediate credit bank.~~" "*District Farm Credit Administration*".

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation," wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

TITLE II—MISCELLANEOUS PROVISIONS

Sec. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations;"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this Act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This Act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

Amend the title so as to read: "To liquidate production credit corporations; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes."

Senator HOLLAND. Next is Mr. James Crouch.

STATEMENT OF JAMES CROUCH, SECRETARY, 10TH FARM CREDIT DISTRICT PRODUCTION CREDIT ASSOCIATIONS COMMITTEE, BURLESON, TEX.

Mr. CROUCH. Mr. Chairman and gentlemen of the committee, I am James Crouch, of Burleson, Tex. I have been a member of the Stephenville Production Credit Association since 1945, on the board of directors of this association since 1949, now vice president of this board, and a member and secretary of the 10th Farm Credit District PCA Committee.

I operate a dairy and general farm near Burleson, Tex., and my father was one of the early users of production credit, being one of those whom the system saved during the depression.

The 10th district PCA committee has met many times during the past year to represent the associations in our district, and in more recent months to consider proposed farm-credit legislation.

At a meeting on March 3 of this year, the committee as a whole selected Mr. D. T. Northcutt, chairman, Mr. J. B. Chambers, and myself, to represent the PCA's of the 10th district at this hearing. Mr. Northcutt and Mr. Chambers were not able to attend at this time.

It is a pleasure to appear before you and express the desires of the 36 production credit associations in the 10th Farm Credit District concerning S. 3564 and identical bills, which would combine the production credit corporations and Federal intermediate credit banks into 1 organization, and to provide a means by which this institution could become wholly farmer owned.

The associations of the 10th district have had a desire for several years to own these two organizations and have not changed our views in this matter.

Our district was divided in opinions regarding section 201 of the bill, which became the Farm Credit Act of 1955, to the extent that further unity within the district appeared doubtful.

We are now convinced that deletion of section 201 of that bill was justified to the extent that we have been able to iron out most of our differences and become more unified in our line of thinking.

In August of 1955, the Federal Farm Credit Board held a hearing in Houston, Tex., which was attended by representatives of all 36 associations and most OFI's of the district.

The purpose of this hearing was to give every association and OFI's an opportunity to express their views, and these views to be used by the Federal Board, along with the opinions of all other districts in the development of legislation more nearly representing the desires of the farmers using short-term credit.

In November of 1955 the Federal Board held a similar meeting in Houston, at which time a proposed bill was presented that resulted from the earlier hearings. We realize that this new bill could not be exactly as each individual wished and that it would of necessity represent majority thinking.

After detailed explanation of the proposed bill and lengthy discussions, we realized that the Federal Board had done a masterful piece of work that we concluded was fair to everyone concerned.

At the conclusion of this hearing every PCA in this district went on record supporting the proposed bill and desired that the 10th district be represented as 100 percent in favor of it. Minor changes in the bill since that time have made no difference in this position as expressed at our recent meeting of the district committee.

The OFI's of the 10th district have consistently opposed the wishes of the PCA's on legislative matters pertaining to the FICB's and PCC's. Recommendations made by the OFI's were of such nature that we could conclude only that they actually did not want any change made in the present setup, and wanted to eliminate all supervision that has been vital to past development of the PCA system.

Last year they opposed that part of section 201 of the Farm Credit Act of 1955 that pertained only to PCA's. Now they are opposing the purchase of the FICB's by the users of that institution.

We believe that the proposed Farm Credit Act of 1956 deals more than justly with the OFI's and others discounting with the FICB's because they are not required to make any form of initial payment yet have full access to us of the bank on the same terms as PCA's, and will participate in any dividends the same as if they were stockholders. We fail to find any part of this bill that could be construed as detrimental to any user of the bank.

The 10th Farm Credit District PCA committee unanimously requests and urges prompt passage of S. 3564 or an identical bill, in order to relieve the unsettled conditions in our district and in others.

Senator HOLLAND. I have sketched through your statement. I know that you are strongly supporting.

Mr. CROUCH. Just exactly.

Then I would like to make a statement in regard to S. 3699.

Senator HOLLAND. All right, sir.

Mr. CROUCH. This bill in regard to S. 3699.

Senator HOLLAND. What is that bill?

Mr. CROUCH. That has been introduced. Our committee of the 10th district has discussed this matter in the past.

Senator HOLLAND. You mean the permitting of a manager for one of the Farm Credit Administration units to serve as a member of the board of directors of any other unit?

Mr. CROUCH. Yes, sir. We would be in very bitter opposition to that.

Senator HOLLAND. In other words, you think that managers should not be allowed to serve?

Mr. CROUCH. Should not be permitted to serve.

Senator HOLLAND. Thank you, sir.

Mr. CROUCH. And we would be in bitter opposition to this bill as submitted by the Budget Bureau, too.

Senator HOLLAND. On the principal matter?

Mr. CROUCH. Yes, sir.

Senator HOLLAND. In other words, you are favoring S. 3564?

Mr. CROUCH. Yes, sir.

Senator HOLLAND. And you are opposing S. 3699?

Mr. CROUCH. Yes, sir.

Senator HOLLAND. And you are acting for the whole group of associations mentioned in your statement?

Mr. CROUCH. Yes, sir.

Senator HOLLAND. Thank you very much.

Gentlemen, I am sorry; there is a quorum call. I will have to ask to be excused until I can get back here. It may be quite a little while. I hope you will bear with me.

If you can arrange to submit statements which do not mention what has already been covered, that will be satisfactory and that will expedite the hearing.

(Recess.)

Senator HOLLAND. Mr. Roy Davis.

STATEMENT OF ROY B. DAVIS, MANAGER, PLAINS COOPERATIVE OIL MILLS, LUBBOCK, TEX.

Mr. DAVIS. Mr. Chairman, I do not have a prepared statement to submit and I will make mine pretty brief because I know everything has been covered.

I am Roy B. Davis, manager of the Plains Cooperative Oil Mills, of Lubbock, Tex.

I own a small farm and am a director of the 10th district at Houston. I want to say in the beginning that I heartily endorse and our board has endorsed this Federal Farm Board bill highly, S. 3564.

We think the consolidating of the credit bank and the corporation will be good, be good from the grassroots up.

We think that it needs to have that integration that it takes that can best be had in a consolidated unit. We think too that it will tend to make a little bit more harmony. We find that, as times get a little bit rough, we are sort of divided.

Some fellows think we ought to pass on the loan and approve it; some think we should not. So we believe when it all gets under 1 roof, where the responsibility is with 1 man, that there will be more harmony and the borrower will be served best.

We think, too, that in due time the production credit of a consolidated bank can and will handle a greater part of the short-term credit than it does now, so I want to say we are heartily in favor.

There is one question that bothers me in it, and that is the OFI's.

To my way of thinking it would probably be better for the borrowers of short-term credit if the Farm Credit Administration would lay down the qualifications whereby OFI could become a cooperative unit, and if it met those qualifications and if it operated within the rules and regulations as laid down by Farm Credit, that they, too, should become a voting member.

We personally, I have observed that there is always room for any good credit lending agency to the producer if it is soundly financed and soundly managed and if it is operating to the producer's interest. So I think there is room for it. I have noticed, too, among the OFI's that they tend to sort of have what I would call commodity or special financing. There is some financing that fits better the cattleman, some on dairy, some on rice, and so forth, and they seem to fit in those categories and possibly have a place.

But certainly if they were to enjoy the privileges of membership, they should also be qualified and they should assume the responsibilities of it.

I believe if those things are done, particularly if they were given an opportunity to—I am afraid without it that there may be some fear on the part of the OFI's that they are being discriminated against, and so forth, so I would raise the question and ask the committee to give consideration to that point.

Other than that I do not believe I have anything to add that has not been covered.

Senator HOLLAND. Thank you very much, sir. I believe that I have no questions.

Mr. DAVIS. Thank you, sir.

Senator HOLLAND. Thank you, Mr. Davis.

Mr. WATKINS JOHNSTON. Mr. Leonard Read?

STATEMENT BY LEONARD E. READ, JR., MANAGER, CALIFORNIA COTTON CREDIT CO., LOS ANGELES, CALIF.

Mr. READ. Thank you, Mr. Chairman.

My name is Leonard Read. I represent an OFI, California Cotton Credit Co., with offices in Los Angeles and Fresno, Calif., and Yuma, Ariz.

I also speak on behalf of three OFI's in the Berkeley District who were unable to be present at this hearing, namely: California Cattle Security Co., Ltd. of Glendale, Calif.; Producers Cotton Credit Co.

of Phoenix, Ariz.; and J. G. Boswell Farm Loan Co. of Los Angeles.

With your permission I would like to digress. I am sorry that Governor Tootell is not here. I would like to say as an OFI member, I felt rather maligned the other day in part of his testimony regarding two remarks that were made, one that the OFI's take only loans on which a profit can be realized, and No. 2, that our loans are mainly large and of a gilt-edged nature and sort of the cream off the top, so to speak, the inference being that we leave the poor loans, the sorry ones, for the PCA's.

Regarding the first, I merely would like to ask when has profit been suspect?

Whether you call it a net margin or savings or what have you, it is still a requirement for sound business operation and growth.

PCA's need a profit to prosper and flourish.

In regard to the second, I would like to ask the Governor if he knows anything about this history of our company that went broke in the early thirties.

It was several of those large gilt-edge loans that did it. It not only took down the financing company, it took the parent company with it.

If he will inspect our company's loan portfolio, he will find loans ranging from \$500 to \$140,000 with the largest percentage of which, as these difficult times have created, they are of a very marginal character.

I wanted to express to him that if that was the cream, then maybe I was in the sour cream and cheese business instead of the loan business.

Gentlemen, I wish to offer testimony opposing the bill before this committee.

The OFI's in the Berkeley District account for 35 to 40 percent of the Federal Intermediate Credit Bank of Berkeley's annual business volume. Many have been discounting with FICB as early as 1924, nearly 10 years before PCA's were organized. As to individual borrowers, we provide agricultural credit to about 10 percent of the 11th District's total, which includes both large and small producers.

The part that I would like to read here, because you might have some question about it, is this part relating to costs in this merger.

First, I should like to discuss some of the important costs connected with this proposed merger. According to my calculations, the PCA's will not make sufficient earnings to pay for ownership of the Federal intermediate credit banks, let alone build their surplus.

When various plans for retiring Government capital from the Farm Credit System were first discussed in Berkeley by the Farm Credit Board on July 18, 1955, the plan before us now was presented as feasible, based on a discount rate of 2 percent.

In the light of FICB's last debenture issue at 3.6 percent we feel this fundamental assumption of a 2 percent discount rate is fairly unrealistic.

The cost of operating a PCA or OFI is the largest controllable cost. The operating need of small PCA is about 3.5 percent. That is assuming he wants to put a little something into surplus.

Some of the larger PCA's can operate at 3 percent. Except for the cost of operating the credit banks, the cost of money is the largest uncontrollable cost with which we must contend and is consequently of

vital importance in forecasting the outcome of a purchase program as proposed in the bill.

	<i>Percent</i>
If FICB debentures sell at-----	3.5
Commission-----	.1
If FIBC operates at a cost of-----	.25
Reserve against losses-----	.15
Total cost of money-----	4.0
If cost of retailing money to farmer is-----	3.0
Rate charged to growers would be-----	7.0

However, competition determines interest rates and we are currently charging the grower 5.5 to 6 percent, even though with FICB's latest rate quoted at 3.5 percent, we are technically authorized to charge 7.5 percent, which is out of the question.

If PCA's or OFI's increase the interest rate arbitrarily above the level charged in the market place, our best customers will be lost to the commercial banks and other financing competitors.

Therefore, the squeeze is on the earnings of PCA's and OFI's. If the competitive rate is 5.5 to 6 percent, and the cost of money is now 3.5 percent, that leaves PCA's a spread of 2 to 2.5 percent while it cost them 3 to 3.5 to operate. Where is the margin for purchase of the FICB's or building surplus?

I am assuming here the average volume of business of \$60 million done by the Berkeley Bank.

A short time ago we were given the opportunity to review a report to the Farm Credit Board by Arthur Andersen & Co., which estimated savings to be realized from consolidation, personnel cuts, and changes in loan supervision and rediscount procedures.

We consider the report to be very narrow in its appreciation of the consequences of its recommendations. It evaluates none of the real fundamental questions voiced for some time now by the OFI's regarding the propriety of merging two institutions, largely dissimilar in concept, purpose and service rendered.

But most important, it fails to place in proper perspective the fact that even the generous estimate of savings of \$28,000 from consolidation in the Berkeley district would mean a net reduction in the cost of money of only .04 of 1 percent.

In the face of no earnings or operating deficits, it is now proposed that sharp reductions in loan supervision, in personnel, and questionable alteration in rediscount procedures be implemented to realize a saving, which is nominal in relation to overall costs.

Now the question of the surplus. The OFIs in the Berkeley district helped build the present \$3 million surplus. Of course, Federal land bank ownership by the national farm loan associations and co-op ownership of the Bank for Cooperatives established the precedent to give the surplus to the users.

In this case, the stock would be purchased at par of \$5 million with a book value of \$8 million. The OFIs will be issued no stock, but rather are to receive from the net earnings of the bank, after reserves and franchise taxes are provided for, participation certificates, these to be redeemable at par upon liquidation of an OFI or when all the class A stock has been retired.

In other words, for an OFI to realize any value from the participation certificates issued to it, if any, that lending institution must either

go out of business or await the occurrence of an event which has all the earmarks of requiring 50 to 100 years to accomplish. Do not the OFIs have claim to FICB surplus as valid as the PCAs, if it is construed that the users earned it?

Who will pay for PCA ownership? The policy set forth in the bill before this committee is to encourage and promote continued growth of the PCAs. If this to be actively undertaken by the FICB or is this to be done by the Farm Credit Administration in Washington? In any event, who is to pay for it?

The banks now pay Washington's expense as assessed by the Farm Credit Administration. But the consolidation plan contemplates that the cost of supervision be paid out of Production Credit Corporation surplus and expenses beyond that amount "out of other resources."

If this must be borne in the discount rate, OFIs will be paying part of the cost.

Section 205 (a) covers class of stock, ownership, dividends, and retirement of stock, and raises two pertinent questions:

(a) How long is the purchase expected to take?

(b) What increase in the FICB discount rate will be required to accomplish it?

In view of competitive money rates to borrowers and the cost of money in the market place, we would question Governor Tootell's estimate of 10 to 40 years.

Another question we must ask: Does change of ownership take the Federal Government out of the agricultural credit field. The proposed bill provides that the Government may reverse the intended transfer of ownership at any time the Governor deems it expedient to reinvest in the class A stock of the banks.

Thus, the question of ownership is largely academic. Who holds title to part of the Farm Credit System is of little importance compared to the possible adverse effect the announced change of ownership may have on acceptance of FICB's debentures.

What has the present FICB system cost the U. S. taxpayer? It is well known that on its investment of \$60 million—\$5 million in each district bank—the Federal Government has received \$9,200,000 in franchise taxes since the banks were organized in 1923.

The \$60 million is still intact, as of June 30, 1955. Surplus and reserves in the 12 months totaled more than \$47 million. Total net earnings of \$56,200,000 on an invested capital of \$60 million. Thus the banks have not been a burden on taxpayers or the Treasury since all of its funds have been obtained in the open market and expenses have been provided for out of earnings.

Regarding the matter of supervision, the proposed law does not spell out the details of supervision. What, broadly, are the duties of supervision of PCA's to be delegated to FICB? Are these not likely to conflict with the primary purpose of FICB's to serve as banks of discount for agriculture through discounting agricultural and livestock paper for, and making loans to, all financing institutions qualified to use the bank's facilities.

Assuming the FICB's are to exercise the duties of supervising PCA's, what sort of relationship is created when the credit directs the affairs of the debtor who in turn owns the creditors' business?

There is a presumption here that the owners of a business would want to sit on its board and have a voice in its management and policies. It appears to us the fundamentally sound relationship of independence between lender and borrower would no longer exist. As financing companies we do not try to run the affairs of our borrowing customers—we either make a loan or we do not.

Heretofore, and presently, the bank has not attempted to manage our affairs in making, servicing or collecting loans. It has merely reserved the right to grant or deny the discount privilege and to refuse to accept loans offered for discount.

With further regard to the question of having a voice in the credit system of which we have considered ourselves a part, OFI's have no representation on either the District Farm Credit Board or the Federal Farm Credit Board. In defense of our reluctance to accept assurances that we will be "taken care of", we ask, where will our voice be heard?

One other important thing, the money market is of primary concern to us and it has reached a height that we did not think possible right now.

We are always concerned about the reaction of debenture buyers to this change. I would like to point out where we believe the strength of the debentures lay.

Wherein lies the strength of FICB debentures in the money market? The assets of every PCA and OFI now underwrite the paper discounted with the FICB's and this, in turn, strengthens the collateral behind the bank's debentures.

Even though the initial stock subscription by each PCA—15 percent in the first 2 years—is small, by that amount is the System weakened when gilt-edge liquid assets (i. e., Government bonds) are exchanged for a nondividend-paying frozen equity in FICB.

Only in the Governor's authority to reinvest Government capital at his discretion do we find an avenue to avoid endangering marketability of the banks' securities. To the users of the banks' facilities, any disturbance, especially now, of the money market could be exceedingly costly and, in our opinion, any contemplated change in the System's structure should be approached with more than ordinary caution.

Another point that we feel is unjust is the bill before this committee. The bill before this committee also gives the FICB Board authority to terminate employment of all PCC-FICB personnel and then reemploy such of them in such capacities as determined by the Board. The Farm Credit Administration, however, need not approve the district board's selection which clearly gives it direct control down to the last employee.

The OFI's have long voiced their admiration and approval of the FICB's management, personnel and operating efficiency in our district.

They operate like no Government agency I know of. It is run like a private business.

We do not favor changes in the present bank personnel nor do we believe jurisdiction for such selection should rest outside the district boards. We are opposed to further concentration of authority in Washington.

To summarize: In the opinion of the private finance institutions for whom I speak, the proposed PCC-FICB merger—

1. Will take too long. The time required to retire Government capital will be entirely dependent on earnings under changing competitive conditions.

2. Comes at a time when agriculture is in a distressed state and any adverse effects resulting from the merger would accentuate this condition.

3. Although we do not pretend to speak for the PCA's, we believe the purchase plan will impose an unnecessary burden on them.

4. Does not remove Government control from the FICB system when and if Government is finally repaid.

5. Is inequitable to the OFI's:

(a) Gives ownership of the surplus to PCA's despite contributions OFI's have made to the surplus.

(b) Our competition—and they are competitors—will own the banks. They will elect two directors, OFI's will elect none, and the policy instructs those who are to administer this law to promote and encourage development of the PCA's.

We have no argument with them. In fact, we work fairly closely with them in many of the areas we serve.

(c) OFI's will be expected to share the cost of supervision.

(d) If FICB's are to exercise supervision, what assurances have we that they will not attempt to supervise all discounting agencies?

(e) We believe the OFI's will ultimately be driven out of the system.

The alleged mortality rate of OFI's (1,200 down to 94) may be in some measure due to the rise of PCA's (0 to 498) and the growth and competitiveness of the commercial banks rather than our ineptitude or unwillingness to provide credit to agriculture.

The OFI's interest is to provide money to farmers and ranchers at competitive rates through a self-supporting system.

Naturally, we are more interested in the rates our borrowers must pay for capital than we are in who owns the banks.

The OFI's for whom I speak would prefer, over the present bill, a long-term retirement program, based on FICB earnings, and providing for no purchase of stock (credit bank plan II).

This I believe was the plan submitted by the Federal intermediate credit banks' presidents to the Board, and this was submitted with six others at these first hearings, but not given much consideration.

The rate of retirement of Government money would depend, as it must under any plan based on earnings, on the spread available in the rediscount rate.

When the Federal Government was finally paid out there would be no stockholders but rather an independent trust, held in perpetuity for agriculture and available to all qualifying lending agencies.

Senator HOLLAND. You think that the new organization would not be freed from Federal interference and regulation?

Mr. READ. No, sir.

Senator HOLLAND. You heard the Bureau of the Budget this morning take exactly the opposite position. They think that it is too much freed and that there should be provisions put in there to restore budgetary control and other controls that they think are necessary over these local institutions.

Do you have any comment to make on their position?

In other words, they were taking the opposite extreme of the position that you are taking?

Mr. READ. Yes, sir. I believe that as long as we have Government money in the system, that I can understand the Government's reluctance to release it.

In fact I do not know that turning the surplus over to the users is necessarily right. We say that the users earned it and they contributed to it and the farmers contributed to it, but that is a matter of policy.

Senator HOLLAND. Well, it would follow a policy or course that has been established in the case of Federal land banks and the banks for cooperatives already.

Mr. READ. Yes, sir; I brought that out in here, if that policy was followed.

I would not say that it is perhaps necessarily correct.

Senator HOLLAND. Thank you very much, Mr. Read.

Mr. Watkins Johnston.

Mr. Johnston, we would like to hear you, sir.

STATEMENT OF WATKINS JOHNSTON, REPRESENTING THE PRODUCTION CREDIT ASSOCIATIONS OF THE FIFTH FARM CREDIT DISTRICT, MONTGOMERY, ALA.

Mr. JOHNSTON. Senator, there has been so much said and so much that duplicates that the thinking of our group and others that I will try to eliminate that which is a duplication and get to the point.

I represent the PCA's of the fifth district. I was given a letter which I understood had been pretty thoroughly passed among the interested parties stating their original position. It was adopted in answer to the first call in the summer of 1955, readopted in answer to the second call in the fall of 1955, and was transcribed and readopted at a meeting of April 9, 1956.

It purports to speak for 22 of the 26 associations of the fifth district.

I understand, though I cannot vouch for the correctness of it, that it now speaks for all but one, the association represented here yesterday by Mr. Thomson of the Jennings Credit Association.

To brief the resolution which I will ask be placed in the record, the resolution first opposes the proposed change.

Second, it suggests that if there is to be the adoption of the proposed change, that the effective date of the adoption or the effective date of the change be deferred for a period of 5 years.

It approves Senate bill 3564 if there must be a bill.

May I offer that in evidence?

Senator HOLLAND. Yes, it will be admitted.

(The document is as follows:)

RESOLUTION UNANIMOUSLY APPROVED BY 22 OF THE 26 ASSOCIATIONS OF THE FIFTH FARM CREDIT DISTRICT REPRESENTED AT A MEETING HELD IN JACKSON, MISS., AT THE HEIDELBERG HOTEL ON APRIL 9, 1956

Be it resolved, That the Production Credit Associations of the Fifth Farm Credit District recommends to the Federal Farm Credit Board that no legislation be enacted to change, in any way; the present Production Credit System or the Federal Intermediate Credit Bank; be it further

Resolved, That, if the Congress of the United States demands such legislation for the merger of the PCC's and FICB's and the purchase of the merged

institutions, by the users, it is recommended that the effective date of such legislation be deferred 5 years; be it further

Resolved, That if there must be legislation, as above indicated, effective either 5 years from now or sooner, it is recommended that the bill offered by the Farm Credit Board of Washington and introduced as S. 3564 or any identical bill, be enacted into law; be it further

Resolved, That a copy of this resolution be sent to each Production Credit Association in the United States, to directors and secretary-treasurer of each Production Credit Association in the New Orleans Farm Credit District and to Mr. P. F. Williams, National Advisory Committeeman and to each Senator and Representative in the States of Alabama, Louisiana and Mississippi and particularly to Senator Allen J. Ellender, Chairman of the Agricultural Committee of the Senate and any agricultural organization which might be deemed advisable by the District Advisory Committee and to each member of the Farm Credit Board of New Orleans.

Certified to be a true copy.

A. T. SHIELDS,

*Chairman, District Advisory Committee, Production Credit Associations,
Fifth Farm Credit District.*

Mr. JOHNSTON. Today I received copies of two identical telegrams, one sent to the Honorable Allen J. Ellender from the Shreveport, La., Association, which I would like to also offer if I may, and a second directed to the Honorable Russell B. Long, from the same association.

Senator HOLLAND. A copy will be inserted in the record.

(The telegram referred to above is as follows:)

SHREVEPORT, LA.,
April 23, 1956.

HON. ALLEN J. ELLENDER,

HON. RUSSELL B. LONG,

*United States Senate,
Washington, D. C.*

We the undersigned directors of the Shreveport Production Credit Association in an official meeting held on this date urgently request your opposition to any change in the present Production Credit Corporation system or the intermediate credit bank. We express the opinion of our membership totaling 642. We would appreciate your reception of Mr. Watkins C. Johnston, who is representing us as well as other associations in this district in opposition to said change.

C. C. WHITTINGTON,
President.

L. S. FRIERSON, Jr.,
Vice-President.

S. W. CAVETT,
CLARENCE H. SMITH,
E. R. PRINCE.

Mr. JOHNSTON. Because, Senator, I am so convinced in my mind that our associations, though they feel that this possibly is not the correct move at this time, that they are sold on production credit and short-term credit and the good work that has been done and the necessity for the continuance of it.

I ask if I might review the proceedings here and possibly offer some alternative to their opposition so that we might go along with the group.

I have here 2 or 3 suggestions which I gathered from this meeting and about which I have talked with Governor Tootell.

I offer them by way of conciliation, hoping that if the position assumed by them of opposition is not followed, that we then may go along with these suggestions which might eliminate the fears that they have of the changes.

The first one is based upon the fact that a great many of the associations in the fifth district are so lowly capitalized, so inadequately capitalized that they are afraid that if they are called upon to pay the 15 percent, or their proportionate part of the 5 percent within the period stated, that it will deplete their capital and jeopardize their capital position, and therefore we suggest that that 15 percent be reduced to 10 percent.

We suggest, second, that the payment of that 10 percent be extended over a period of 5 years rather than 2 years, and we suggest that the Governor give to these associations whose interest we primarily seek to protect, an assurance that if they find their capital impaired, that he will come to their rescue from his revolving fund.

And then finally, the matter of representation.

Throughout all of the meetings, the thought has persisted that they were being called upon against their desire to purchase a situation, and that sufficient control was not given them of the new situation, and therefore to remedy that, we suggest that a change be made in the bill to allow separate boards, district boards.

I believe, Senator, as succinctly as I can, I have expressed the desire of the fifth district.

Senator HOLLAND. You mean there would be two sets of boards within the one corporate organization?

Mr. JOHNSTON. Yes, sir.

Senator HOLLAND. Do you have any precedent for that kind of a setup?

Mr. JOHNSTON. Of my own knowledge, Senator, I do not know that there is, but from my conversations with the officials of the board, I understand that there are.

They are not officially separate boards, but they become separate boards by a manner of conducting their business.

One I quote:

The two representatives of the PCA acts with the appointed member to become the committee for the consideration of all PCA matters.

It is an accepted fact within the organization that the recommendations of that committee with reference to PCA are accepted by the Board.

I understand that that arrangement has worked satisfactorily and is carried out in other PCA's.

Based upon the desire of our group and our assurance that that is good, then we would like to make it official.

Senator HOLLAND. You mean really one board of directors divided into two subcommittees, subboards to handle the two types of business?

Mr. JOHNSTON. That would be all right; yes, sir.

Senator HOLLAND. All right, sir.

Mr. JOHNSTON. Before leaving, Senator, I was asked by the Governor my opinion with reference to a bill——

Senator HOLLAND. Mr. Tootell has come back now.

Mr. JOHNSTON. Yes, sir. He asked me to express my opinion of a bill which would permit secretaries and treasurers to become members of district boards.

Our district would be opposed to that.

Senator HOLLAND. You would oppose having paid full-time executives in any branch of the Farm Credit Administration setup available and qualified for membership in boards of other units?

Mr. JOHNSTON. Yes, sir. We see them as career men, probably better better qualified than others of the associations, but theirs is an administrative capacity and not executive capacity, and I think it would weaken the association if we breached that line.

Senator HOLLAND. Thank you very much, sir.

Mr. JOHNSTON. I thank you, sir, very kindly.

Senator HOLLAND. It has been a helpful statement. Mr. Ray Cowden.

Mr. COWDEN. I would prefer to let Mr. Armer go on first if I may, sir.

STATEMENT OF FRANK C. ARMER, CHAIRMAN, OTHER FINANCING INSTITUTIONS COMMITTEE OF ARIZONA, PHOENIX, ARIZ.

Mr. ARMER. I have prepared a short statement which I will submit. I am representing all the OFI's we have in Arizona. We have had a number of meetings since the draft of the bill was presented to us by the members of the Farm Credit Board in Berkeley on November 28, and we set up a committee and as a member of that committee I am representing those companies.

I do want to mention that out of Arizona there is a total of about \$15 million to \$18 million that have been discounted in the bank at Berkeley, and these OFI's that I represent here discounted and handled \$12 million to \$15 million of that. In other words, all of the PCA's in our State handled about \$3 million to \$3½ million of their peaktime of the money that is discounted at Berkeley. I wanted to mention that particular point, and then I will summarize.

Senator HOLLAND. Let me get that again. The PCA's all told handle how much?

Mr. ARMER. About \$3 million to \$3½ million of the money out of about \$18 million.

Senator HOLLAND. And the OFI's handle the rest?

Mr. ARMER. The OFI's handle around 75 percent of it.

Senator HOLLAND. Well, your area is exceptional then, isn't it, in that regard?

Mr. ARMER. Yes, it is. We are a deficit area out there, an area of expanding economy. We are a deficit credit area, and it is an important thing to us to have this discount privilege.

Senator HOLLAND. All right, sir; proceed.

Mr. ARMER. I will read the last paragraph that I have here.

We would much prefer to see the FICB's capital retired by earnings and operated as a public trust, thus leaving the surplus with the Government where it probably belongs.

If I may digress right here, Mr. Chairman, I would like to ask one question that has been discussed a lot about this earned portion of the \$47 million surplus that might be credit to the sum of 1,200 OFI's that at one time or another did business but a large portion of which are not now doing business with the credit banks.

In the Berkeley district I think there were originally about 39. There are 10 left, OFI's, now using the discount privilege. However, that difference was not what you would call mortality.

If I am correctly informed, only two of those went clear out of existence. Most of those charters are still kept alive, and for various reasons the discount privilege is not being used in Berkeley.

I know one of them belongs to a large company there in the northern part of the State that quit using discount privileges, but they still use the company within segments of their own operation, but they quit using the privilege when the Production Credit Act was passed in 1933 because, after all, it was more convenient to them to let somebody else take care of it.

But what I am wondering is: Where would these companies that are really still alive and not using the privilege figure into that calculation of a surplus if there was?

I think it just adds more confusion to it—I will state it that way—and I would rather see it left as the Budget Bureau would like to have it.

Senator HOLLAND. In other words, you would like to see that accumulation of surplus remain as a cushion for credit during the operation of the concern, but in the event of liquidation it would be a Government asset?

Mr. ARMER. Yes, sir.

Senator HOLLAND. All right, sir.

Mr. ARMER. The company that I represent individually—I would like to make 1 or 2 statements because of this cream-of-the-crop business.

Of the loans that we have, there are 22 percent that are under \$2,500.

I do not know whether that is a small loan or a large loan in the judgment of being the cream of the business. And we have 14 more percent of our loans that are under \$10,000; in other words, a total percentage of 30 percent of our loans are under \$10,000.

In the livestock business we think that is small loans.

In fact, too small if it is the limit that a man can borrow.

I do not think I would have anything else to add and I do thank you.

Senator HOLLAND. What is your largest?

Mr. ARMER. Our largest loan is around \$90,000, a commitment of \$98,000.

(The prepared statement of Mr. Armer is as follows:)

My name is Frank Armer. I am from Phoenix, Ariz., and I am appearing in behalf of the OFI's of Arizona who have met on several occasions to discuss this legislation since it was presented as a tentative bill last November.

The companies are:

Producers Cotton Credit Co., Phoenix, Ariz.
Casa Grande Cotton Credit Co., Casa Grande, Ariz.
J. G. Boswell Farm Loan Co., Litchfield Park, Ariz.
Tri-Stable Livestock Credit Co., Phoenix, Ariz.
Producers Livestock Credit Corp., Phoenix, Ariz.
Arizona Stockmen's Loan Co., Phoenix, Ariz.

Of loans discounted at Berkeley from the State of Arizona which in the past have reached peaks of from \$15 million to \$18 million, these companies have handled from \$12 million to \$15 million.

Arizona is an area of expanding economy and therefore a deficit-credit area, so that this is a most important source to us. We realize that the bill spells out what is considered by some to be equitable availability of this credit to us, but we simply must question that it will prove so in practice. It seems to us that the PCA's will have considerable influence on the new institution and while we have no quarrel at all with them in our area, still we anticipate a day in the future when this arrangement will be to our disadvantage. For this reason

some of the larger members of our group have already made other discounting arrangements to be used if this bill passes.

In July of 1955, at Berkeley, we were told, among other things, that the Federal Board had been requested to submit to Congress by January of this year proposals for:

- (a) Transferring to the PCA's their own costs of supervision; and
- (b) Eliminating Government capital from short-term-credit institutions (PCC and FICB).

In accomplishing those things we have felt the bills before Congress much too drastic. We feel that under these bills a part of the cost of PCA supervision will be borne by borrowers of the OFI's. We do not feel that just consideration has been given to the part that OFI's had in contributing to the surplus of the credit banks. While we grant that it is a matter of speculation, we feel that this is no time to risk increased costs of money by disturbing the reputable well-run credit banks through changes in management, personnel, and otherwise.

We would much prefer to see the FICB's capital retired by earnings and operated as a public trust, thus leaving the surplus with the Government where it probably belongs. We do not feel the credit banks should be drawn into the settlement of problems between the PCA's and the PCC. We agree wholeheartedly with all who say the system has been well and efficiently managed, and has been of great service to agriculture. Why then change it so drastically at a time so critical to agriculture?

Senator HOLLAND. Mr. Cowden?

**STATEMENT OF E. RAY COWDEN, PRESIDENT, ARIZONA
STOCKMEN'S LOAN CO., PHOENIX, ARIZ.**

Mr. COWDEN. Mr. Chairman, I have not a prepared statement, sir, but I have just made a few notes, because I think if I had a prepared statement, a great deal of it would have been repetitious.

Senator HOLLAND. I notice your company is one of the six listed in Mr. Armer's statement as operating in your district.

Mr. COWDEN. That is right.

I have lived in Arizona for 44 years, and for all that period of time I have either been farming, cattle producing, or cattle feeding.

I was associated for several years with the people that organized the first OFI in the State. That was the Arizona Livestock Loan Co., and I actively worked with them in the operation of that company.

It is inactive today. The manager of that company continued with it until the late thirties, and then as it became inactive retired from the organization that had owned it and organized what today is known as the Arizona Stockmen's Loan Co.

He passed away in 1952.

I gathered up a group of 26 ranchers and farmers, with the exception on 1 at that time and 3 now, and persuaded them to purchase that loan company to keep it from being liquidated because I felt it would injure a good many livestock people very seriously.

These 26 stockholders—there is not 1 of them borrowed from that company. As I stated, they were all ranchers and farmers except three. One of them is an attorney and two of them at the present time have not any livestock interests, but they have been in it.

There is one thing that concerns me about this change at the present time. We know that our loans in all of the commercial banks are high in relation to our deposits.

We just had a statement call on the 10th of April, and as far as Arizona is concerned, why you might say that they are up to the high

point on their loans and the season for their higher loans has not arrived.

I believe that situation will adversely affect the sale of our debentures in the future, so it is only reasonable to expect that we will have increasing interest rates.

Along with that we have had a continuing decline in agricultural income. I picked up two little cards that someone had that shows our farm-mortgage debt in 1953 went up \$1.1 billion, our farm bank borrowing went up \$1 billion, our farm real-estate inventory went down \$7½ billion, while on the other hand from 1952 to 1955 our industrial stock prices went up 62 percent, our corporate profit after taxes went up 32 percent, our stockholders' dividends up 19 percent, nonfarm income 14 percent, and net farm income down 23 percent.

So I do not think there is any question but what the agricultural producer today is in a pinch.

Now if there is any steps taken that would in any way increase his cost, that will only increase the financial burden that he has to carry.

Another reason that I am familiar with the agricultural needs in that area, I have been a member of the local Farm Loan Association Board for 25 years.

At the present time I am the president of it, and every day I see increasing application for loans coming in from people that I did not think would have to borrow, but I think it is an advisable thing that they are transferring some of their current debt into long-term debt so as to reduce the amount of annual payments they have to make.

That is the method that we used with a great many of the borrowers in this loan company that we acquired from Mr. Watson's estate in 1952. We persuaded them to go out and put ranch loans on their property and reduce their current debt so as to spread their annual payments over a longer period of time and be able to keep their cattle and their ranches, because their paper would have been of a type that it would have been unacceptable to Berkeley for rediscount.

I think anything else that I might add on this would only be repetitious of what has been said with the exception of maybe one thing.

I can't speak on how this would affect other areas, but knowing the large amount of business that is transacted in Arizona by the OFI's compared to the PCA's, also knowing the close cooperation there is between all of them, I am sure that if there is any move taken now that would change that arrangement, it would certainly injure the borrower.

Thank you.

Senator HOLLAND. Thank you, Mr. Cowden.

I see here one remaining name, Mr. Kenneth M. McLeod.

Is he here?

All right; Mr. McLeod.

STATEMENT OF KENNETH M. McLEOD, CHAIRMAN, COMMITTEE OF PRIVATELY OWNED AGRICULTURAL CREDIT COMPANIES IN THE SEVENTH FARM CREDIT DISTRICT, FOND DU LAC, WIS.

Mr. McLEOD. Mr. Chairman, I appear here today as chairman of a committee serving with Donald Harrington of Plain View, Minn.; Russell Hanson of Benson, Minn., and G. A. Redding of Windon,

Minn., as committee representatives of the privately owned agricultural credit companies located in the seventh Federal Farm Credit District.

There is in our district one privately owned credit company which we do not represent, for whom we are not authorized to speak. That credit company was organized by the Midland Co-op in Minnesota, and after the meeting of last summer when the rest of the associations took a position on this proposed legislation the Midland advised us that that position was contrary to its convictions and withdrew from our association accordingly.

We appreciate this opportunity to submit to you our conclusions with regard to the proposed transfer to the borrowing or discounting institutions of the ownership and control of the Federal intermediate credit banks and the merger of those banks with the production credit corporations.

We understand that the Federal farm credit board has interpreted the 1953 Farm Credit Act as a mandate of Congress requiring by one method or another elimination of Government ownership and control of Federal intermediate credit banks and the production credit corporations.

We seriously question the wisdom of that so-called mandate and believe that the Federal intermediate credit banks system should be maintained as a separate independent credit entity, wholly owned and controlled by the United States Government.

We agree that the various institutions supervised by the Farm Credit Administration should be operated on a self-sustaining basis. It is our conviction, however, that the Federal intermediate credit banks are endowed with certain functions which render unwise the retirement of the Government capital and the removal of Government control.

In arriving at our conclusions we have given consideration to some of the background against which the intermediate credit banks were created.

We recall that prior to 1923 the Congress and the Federal farm loan board gave careful consideration to a proposal that intermediate credit be provided by establishing in the existing Federal land banks intermediate credit departments.

After an exhaustive study conducted by the Commission of Agricultural Inquiry, a joint commission of the two Houses of Congress, that proposal was abandoned. It was pointed out at that time that in establishing the Federal land banks provision was made in the law for the ultimate retirement of the investment of the Government as stock was issued to the national farm loan associations.

It was also pointed out that the Federal land bank was not designed as a bank of discount, that it was intended to serve borrowers directly, that its services would be limited to those borrowers who would ultimately become its owners and that it granted its loans upon the basis of appraisals furnished by an independent appraisal system.

The studies of the Commission of Agricultural Inquiry and the proceedings conducted before the Committee on Banking and Currency during the 57th Congress indicated that the intermediate credit required by agriculture could only be supplied by a bank of discount available to all segments of the agricultural credit industry and that

the service which would be rendered by this instrumentality of discount would of necessity fluctuate as the needs of credit, the volume of deposits, and the economic status of the agricultural economy fluctuated.

It was, therefore, concluded that the ownership of that instrumentality could not be vested in the many diverse institutions which from time to time would require the use of its facilities.

Accordingly, no provision was written into the law which created the Federal intermediate credit banks which in any way indicated that their capital and assets (including the disputed surplus account) were ever intended to become the sole property and consequently subject to the sole control of any particular segment of the agricultural credit industry. No provision was made for acquisition of stock by anyone other than the Government.

It was thus clearly indicated that the Federal intermediate credit banks were intended to remain in a permanent establishment of the Government designed to supplement and thus stabilize the structure of farm credit as the need arose.

It was in reliance upon that law that our companies were organized and it was in reliance upon that law that the owners of our companies have devoted the greater part of their productive lives in servicing the farm credit needs of our communities.

The law which brought the intermediate credit bank system into existence clearly stated that its discount facilities were to be available to all of the institutions, private and cooperative, then engaged in furnishing credit to agriculture. And from 1923 to the end of 1940 the banks extended credit to 1,800 different financing institutions. Of these, 235 were commercial banks, 854 were livestock and agricultural credit corporations, 12 were regional agricultural credit corporations.

The remainder consisted of production credit associations and banks for cooperatives.

There was then before the eyes of Congress the very situation which brought the banks into being and that situation indicated that private ownership of the bank of discount could not function as the intermediate credit banks were designed to function. The basic purpose of the banks is clearly indicated by a statement of the Farm Credit Administration in 1937, reading as follows:

The banks (Federal intermediate credit banks) were created to provide a permanent and dependable source of funds required by local institutions in financing the seasonal production credit needs of farm and range at rates of interest comparable to those available to other industries, but with maturities adaptable to the normal liquidating seasons of agriculture.

The intermediate credit banks were not created as emergency agencies. They cannot, therefore, be expected to take, directly or indirectly, inadequately secured paper. They were intended by the law which brought them into existence to represent a permanent system of intermediate banking, to handle farm credits for a longer period than ordinarily may be extended by banks of deposit and falling short of the long-term farm loan, with maturities of not less than 6 months nor more than 3 years.

Their permanence and usefulness are dependent upon making sound loans because, to procure their funds, they must rely upon the ready marketability of debentures supported by these securities.

We believe that it is unwise to be guided in our conclusions with respect to this proposed legislation on the basis of our experience dur-

ing the period from 1933 to the present time. During the greater part of that period we have been in an era of expanding bank deposits.

The commercial banks have thus been able to grant and retain a larger proportion of the farm loans than they were in the period from 1923 through 194. Several OFI's ceased operations during that period because the credit facilities of the banks fulfilled the needs in their communities and the volume of discounts made by the Seventh District Intermediate Credit Bank on behalf of OFI's fell from a total of approximately \$22 million to a total of approximately \$6,500,000 at the present time. We do not believe that that era can be used as a guide for the development of legislation in this field.

There are strong indications that that trend is already about to be reversed. First, our commercial banks have quite generally reached their maximum loan limits.

Second, within the past 4 months 8 or 10 commercial banks have conferred with the officials of the FICB of the seventh district for the purpose of reestablishing their discount privileges.

Third, one new OFI has been organized and started business in our district within the past month.

Fourth, the Federal Reserve board in our district is holding a meeting this week and has requested FICB officials to confer with the board for the purpose of studying the procedures necessary to reestablish the rediscount privilege on behalf of many of its members.

Fifth, a recent study of the Chase-Manhattan Bank indicates that during the next 10 years the loan demand of agriculture will increase by 75 percent. That same study indicates that commercial-bank deposits during the same period will increase approximately 40 percent.

Sixth, with little or no demand from commercial banks and with limited demand from other financial institutions, the discount volume of the FICB for the Seventh Farm Credit District has continued to grow during the past few years.

We are informed that if the demand continues only in proportion to its increase of the last few years, the bank should add approximately \$250,000 to its basic capital or surplus during each of the next 10 years.

It is, therefore, our conclusion that the credit needs of agriculture are in a period of expansion and we are, therefore, greatly concerned about any legislation which may curtail, impair, or otherwise limit the functioning of the intermediate credit system.

In this connection we quote to you from the task force report of the lending agencies issued by the Hoover Commission:

The Federal intermediate credit banks also are Federal Government agencies engaged in direct lending to private business enterprises. They differ from the banks for cooperatives, however, in that they lend to the production credit associations and to other financial institutions instead of directly to the users of the funds, and they differ in that a much higher proportion of the funds which they lend are funds borrowed from private sources and not public funds raised by pledge of the Government's credit.

The Federal Government has provided the entire investment of ownership capital in the Federal intermediate credit banks. This furnishes the equity which helps to make possible the banks' large borrowings from private sources. The intermediate credit banks issue their consolidated debentures to commercial banks and other institutions so that they may supply the loan funds for borrowers financed by the production credit associations and other financial institutions.

The significant statement in this quote is that the Government investment constitutes the equity which helps to make possible the banks' large borrowings from large private sources. We must have in mind that the functioning of the FICB's is almost wholly dependent upon the ability of the system to sell its debentures in the commercial money markets.

It was through the sale of those debentures that over \$1 billion was made available to agriculture during the year 1955. We have tried to determine whether this proposed legislation would in any way impair the ability of the banks to sell the debentures. We conferred by telephone with the fiscal agent of the system and were advised about as follows:

1. The Federal intermediate credit banks are regarded as governmental agencies subject to Government control.
2. They are recognized as being wholly independent and separate from the institutions for which they discount loans.
3. There is a feeling that the Government is always in a position to advance more funds to protect its investment in the banks.
4. The continued availability of the \$40 million in the revolving fund in the past has always been a factor influencing the marketability of the debentures.

This legislation contemplates the ultimate retirement of all Government capital. With the loss of ownership the Government can reasonably expect the loss of control. When ownership of a bank of discount is vested in one class of its customers, fertile soil is created for a desire to discriminate among customers who are in competition with each other.

Before passing to a summary, Senator, I have not said anything about the effect that the legislation may have on the marketability of the debentures as a result of the fact that the conversion from a governmental institution into a privately owned institution may destroy some elements of marketability that are now available to the debentures because the Federal Reserve System, I am informed, regards those debentures in the portfolio of its members' banks as the equivalent of Government bonds.

A question was asked of a member of a Federal bank who does not desire to be quoted, Federal Reserve bank, and he stated merely that if the ownership of the institution were to pass to nongovernmental hands, the Federal Reserve Board would have to reappraise its entire analysis of the debentures, and the probabilities are that they would be regarded in the same light as the securities of any other private institution.

In fairness, however, I must say that I am also advised that the American Bankers Association has stated that it did not think it would make much difference.

Senator HOLLAND. He thought the debentures would find an equally ready market under the reorganization?

Mr. McLEOD. That statement was made. I am inclined to think that the statement may have been made because the American Bankers Association is quite interested in getting the Government out of what it calls business. And the statement may have been a self-serving statement.

In summary, we conclude:

(a) The intermediate credit banks were designed to function as permanent banks of discount for all institutions granting intermediate credit to agriculture. It was never intended that they should become privately owned and it is naive to expect that anyone will purchase the banks without acquiring control and having acquired control, it is naive to expect that control to be exercised for any purpose other than the dominant benefit of the owner.

(b) Under the proposed legislation the Government will continue to have an investment in the intermediate credit banks of approximately \$82 million (exclusive of the unallocated revolving funds and exclusive of earned surplus of approximately \$63 million).

We see no imperative need for the retirement of that investment. In the hands of Government and under its control, it has purchased agricultural credit during the past year in excess of \$1 billion. We know of no other method by which the Government can purchase that same amount of credit at less cost to itself and to its borrowing farmers.

It is not a losing proposition for the Government. Nine million dollars has already been returned in the form of franchised taxes to the Government. It is reasonable to expect a continuance of a comparable return.

(c) The potential effect of the proposed legislation has not been sufficiently explored. The entire testimony before this committee, as well as before the companion committee of the House, fails to indicate that any study has been made of its effect on the marketability of the debentures, which constitutes the essence of the system.

(d) So long as our Government can continue to spend billions of dollars for the rehabilitation of the economy of many different foreign nations, it is not too much to expect that our own farmers will be granted what is in proportion a mere pittance for the maintenance of an admittedly sound system of intermediate credit.

(e) The intermediate credit banks and the production credit corporations, both wholly owned by the government, have earned, largely as a result of the use of interest-free Government money, a surplus in excess of \$60 million.

That fund in our minds is today legally and morally the property of the Government.

The legislation proposed by the Farm Credit Board will in effect make a gift to that fund to the production credit associations.

From the standpoint of a private citizen, that is legally and morally indefensible.

I was impressed yesterday, Senator, by your approach to this problem of the surplus and I thought I was going to change my position after listening to you.

During the period from 1942 to the present time I have been the maker of a loan that has been rediscounted with the Federal Intermediate Credit Bank.

I have paid the interest on the loan, and I cannot honestly accept your argument because during that period of time I received from an OFI through the instrumentality of the intermediate credit bank a lower rate of interest than I would have had to pay elsewhere.

And since I received a lower rate of interest, I have concluded that I was a borrower having contributed nothing to that surplus, and I

therefore take a position that is a little contrary to some of the OFI's here.

I do not believe that either the OFI's or the PCA's have contributed in any real sense to the creation of that surplus, and that it is still and should be regarded as the sole property of the United States Government.

Thank you.

Senator HOLLAND. Well, that is a tenable position.

I wonder if you would care to differentiate, if you have thought it through, between the disposition of the reserve and surplus in this case and that in the case of land bank legislation and the bank for cooperative legislation, both of which expressed the deliberately adopted policy of the nation in this field of agricultural credits.

Mr. McLEOD. I do not think I am sufficiently familiar with the bank for cooperatives.

I think a valid distinction so far as the Federal land bank is concerned is found in the fact that from its very inception it was to be a privately owned institution, and provisions were made in the law for the retirement of the Government capital which in effect started coincident with the creation of the system.

I do not think it would have been feasible to try to segregate that surplus and say that part of it was attributable to Government money and part of it to private money.

I think that the handling of that situation by the Congress was consistent with the act under which the Federal land banks were created. I do not think that that is true in this case.

Senator HOLLAND. Well, now that is a thoroughly tenable point of view and could only be met by two things:

First, the strong desire of the Government as represented through the establishment of the production credit institutions to supply the field of short-term credit for farming people as an incident to serving the national interest, so farmers would not be choked out of existence but financed by short-term loans for production purposes.

And second, the fact that the loans thus made were allowed to be made at an interest rate which did set up a surplus which was needed because the Government was there to meet the demands for ordinary surplus use.

If it was just planned to simply operate in the black but not accumulating anything from smaller interests rates, the service could have been supplied all along without accumulating any surplus.

Of course the third position is that it is considered as sound procedure in cooperative setups generally to accumulate surpluses and in this very legislation it is regarded as sound procedure, to become effective as soon as the institutions are merged.

It would be difficult to me to draw a line of distinction between what occurred before January 1, 1957, and say one principle applied to that, and a different one applied thereafter, and there was no similarity of the operation both before and after.

Maybe there is real reason for differentiation but I doubt it.

Now, gentlemen, we have appreciated the very frank and friendly testimony that has been received, and we are grateful to you folks for having come here long distances to be heard and I am sure that your testimony will be helpful to our committee and through the committee to the Congress.

I understand that Mr. Briggs perhaps wants to supplement his earlier statement, is that correct?

STATEMENT OF MARVIN J. BRIGGS, CHAIRMAN, FEDERAL FARM CREDIT BOARD—Resumed

Mr. BRIGGS. There has been a divergence of opinion here on the status of OFIs under Senate bill 3564, and most of the testimony presented by such organizations has been in opposition to the provisions of this bill.

I would like to read a comment made recently by the Producers Marketing Association, Inc., of Indianapolis, Ind.

This association is the second largest livestock marketing cooperative affiliated with the National Livestock Producers Association represented at these hearings by Mr. P. O. Wilson, of Chicago. Although the Indianapolis organization maintains or has maintained a separate agricultural credit corporation, it is my understanding that it now finances its livestock paper through the Producers Livestock Credit Corp. at Chicago, Ill.

I shall read only one paragraph from the association's statement and, with the permission of the committee, file for the record a copy of the letter from which I quote:

H. R. 10285 makes it possible for the same to be accomplished with the Federal Intermediate Credit Banks and the Production Credit Corporations. We believe this bill treats all users of these two corporations fair and equitable and warrants your support. Identical bills have been introduced by both Congressman Hope and Congressman Poage.

On March 28, 1956, I met in Chicago with Mr. P. O. Wilson and representatives of several of the organizations affiliated with the National Livestock Producers Association to discuss Senate bill 3564, and to explain how that bill, if enacted, would affect the OFI's. If I may I would like to read a statement made by one of the organizations represented at the meeting.

Senator HOLLAND. Can't you put this in the record?

Mr. BRIGGS. Yes, I can; but would like to call particular attention to the fourth paragraph which reads as follows:

Regarding the reorganization of the Federal intermediate credit bank, we should, of course, like to see the OFI's be accorded representation and considerations as nearly equal or comparable to those accorded PCA's as is possible. However, we think the plan finally agreed upon and proposed by you to the Producers group in Chicago may be, as we understand it, as near the desired objectives we seek as is possible to attain at this time. It seems obvious that no proposals can now be unanimously agreed upon which will fully satisfy all parties and assure immunity from later political implications. Such situations must be met as they arise by the leadership of the Farm Credit Administration and the authorized participants.

I should like, if I may, also to put in the record the findings of an investigation made at the request of the Federal Farm Credit Board having to do with the sale of credit bank debentures.

Last fall the Board employed Mr. Macdonald G. Newcomb, who was fiscal agent for farm credit institutions from March 1, 1949, to January 31, 1955, to study and report to it, possible effect on the marketability of credit bank debentures which might result from a change in ownership of the credit banks. Mr. Newcomb asked the following question of responsible investment officials in each of 10 of the leading

banks and securities dealers who buy these securities. These 10 firms are located in the large money centers throughout the country.

Possible effect of change of ownership of Federal intermediate credit banks to production credit associations, on marketability of credit bank debentures.

In response to this question, Mr. Newcomb reported to the Federal Board as follows on November 4, 1955:

The opinion was unanimous that acquisition of the credit banks by the production credit associations on a basis acceptable to the Treasury would in no way affect the marketability of Federal intermediate credit bank debentures. This conclusion is supported by the experience of similar nature in the case of the land banks and also the Federal home loan banks.

(The documents above referred to are as follows:)

PRODUCERS MARKETING ASSOCIATION, INC.,
Indianapolis, Ind., April 12, 1956.

HON. CECIL M. HARDEN,
House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN: House bill 10285 as prepared by the Farm Credit Board and introduced in the House by Congressman Cooley, we believe fulfills a need in agriculture.

We believe it is sound, that the users of the Farm Credit System eventually own it. This has been accomplished in the Federal land banks and congressional legislation has set up a method to make this possible in the banks for cooperatives.

H. R. 10285 makes it possible for the same to be accomplished with the Federal intermediate credit banks and the production credit corporations. We believe this bill treats all users of these two corporations fair and equitable and warrants your support. Identical bills have been introduced by both Congressman Hope and Congressman Poage.

May we urge you to lend your support to this bill and work for its passage.

Yours truly,

WILLARD E. JONES, *President.*

PRODUCERS LIVE STOCK CREDIT ASSOCIATION,
Columbus, Ohio, April 18, 1956.

MR. M. J. BRIGGS,
President, National Council of Farmer Cooperatives,

Washington 6, D. C.

DEAR MARVIN: During the annual meeting of the National Live Stock Producers Association in Chicago on March 28, you conferred with officers and management of the national association and of its affiliated credit associations regarding proposed credit bank legislation and policies thereunder. Reports and discussions of this conference were made on the following day to directors of the national association and to the managers' conference.

Since the meetings in Chicago, I have given considerable thought to the reports and proposals made and vigorously advanced by P. O. Wilson. In fact, we have reviewed the reports, proposals, and recommendations with officers of our Producers Livestock Cooperative Association and Producers Live Stock Credit Association.

Producers Livestock Cooperative Association and Producers Live Stock Credit Association have been users of and expect to continue to use the services of the bank for cooperatives and the Federal intermediate credit bank, respectively. We have, therefore, a stake in the organization, representation, and functioning of these divisions of the Farm Credit Administration. We have joined in the reorganization of the Louisville Bank for Cooperatives.

Regarding the reorganization of the Federal intermediate credit bank, we should, of course, like to see the OFI's be accorded representation and considerations as nearly equal or comparable to those accorded PCA's as is possible. However, we think the plan finally agreed upon and proposed by you to the producers group in Chicago may be, as we understand it, as near the desired objectives we seek as is possible to attain at this time. It seems obvious that no proposals can now be unanimously agreed upon which will fully satisfy all parties and assure immunity from later political implications. Such situations must be met as they

arise by the leadership of the Farm Credit Administration and the authorized participants.

It seems to us wholly unwise to lose the good will of the farm credit leadership at this time by occasioning further delays by insisting upon provisions that are likely not now attainable.

Furthermore, our producers association was one of the first and foremost in the advocacy of your election to the positions of responsibility which you now occupy. We then had full confidence in you and your good judgment. Neither has been impaired. It would now seem to be manifestly unfair for us to withhold from you the cooperation you have a right to expect from those who were a party to the placement of farm credit responsibilities upon you. We believe that our interests will be best served by supporting you in your present views and recommendations and asking that you keep the interests of the users and administrators of the OFI's in mind always so that their relationships in the farm credit system and the considerations afforded them through the Federal intermediate credit bank be in all regards as nearly equitable and comparable with PCA's as possible.

Be assured of our appreciation for your thoughtful efforts and of our continuing cooperation.

Sincerely and cordially,

F. G. KETNER,
Secretary-Treasurer and General Manager.

Mr. BRIGGS. Mr. Senator, we appreciate the consideration you have given this bill. The Board has worked industriously and conscientiously and it has been handled democratically, and we will appreciate what you folks can do for us.

(Whereupon, at 4:50 p. m., the committee adjourned.)

(Additional statements filed for the record are as follows:)

ALEXANDRIA, LA., April 11, 1956.

Senator ALLEN J. ELLENDER,
Senate Office Building, Washington, D. C.

DEAR SENATOR ELLENDER: A bill is pending that proposes to consolidate the Federal intermediate credit banks and the production credit corporations.

This is a matter of great concern to us, and our board of directors at a meeting held April 3, 1956, voiced its opposition to this legislation—a copy of the resolution is herewith attached—and directed me as secretary-treasurer to solicit your help in defeating this proposed legislation.

As you well know, the farmer is today suffering on account of high cost of operation and low income. Interest rates continue to increase. The proposed legislation will add to the cost of the farmer.

No greater service can be rendered to farming America than the refusal of Congress, at this time, to tinker with the Farm Credit Act of 1933.

Yours very truly,

S. F. TRAMMELL,
Secretary-Treasurer, Alexandria Production Credit Association.

RESOLUTION PERTAINING TO PROPOSED LEGISLATION TO CONSOLIDATE THE FICB'S AND PCC'S, ADOPTED BY THE BOARD OF DIRECTORS AT A MEETING HELD APRIL 3, 1956

We, the board of directors of the Alexandria Production Credit Association, Alexandria, La., have carefully reviewed the proposed legislation designed to consolidate the Federal intermediate credit banks and the production credit corporations. Although the district advisory committee has not met to take action on the proposed legislation, we herewith place upon record our preliminary protest to the legislation cognizant that it also affects the production credit associations. It is the unanimous consensus of this board that the production credit corporations have played a great part in building the farm credit system, and in view of the high cost of operation and low income of the farmer, it would be unwise to make such a change at this time in a system that has proven over a period of 22 years to be successful.

It is the unanimous opinion of this board that the enactment of the proposed legislation at this time would be detrimental to the farmers; that more decentralization of power, rather than less, in the Washington office would be to the best

interest of the farm credit system. The proposed consolidation would not prove to be an economy move, in our opinion, but would increase the cost of operation of the Federal intermediate credit banks which most likely would be passed on to the farmer users. It is our very sincere and strong belief that the proper method to improve the system, and to curtail expenses, is to "streamline" the operation of the production credit corporations and the Federal intermediate credit banks, and retain them as separate institutions.

The only reason given for the proposed consolidation is to affect savings in operating cost. We think the saving will be insignificant. The production credit associations are service organizations and have played a great part in the economy of the farmers since organization in 1933. A slight saving accompanied by less service will work to the disadvantage of our system. In view of the present agricultural conditions, this board feels that it may become necessary for the Government to lend more support to short-term credit instead of less. The amount of Government capital in our system is insignificant compared to the service rendered to the Nation's economy.

This board doubts that a bank of discount should ever be the supervisory agency of the associations, the lenders. This is based on our 22 years of experience with the Federal intermediate credit banks.

Since organization this association has made 16,978 loans to farmers for a total of \$31,732,909 and now have 1,847 members. According to their sentiment they are satisfied with the present system which is dependable and adjustable to farm needs, and do not support any change; furthermore, the proposed legislation was not begun by our farmers. The cost of the system is largely borne by its users. Most of the 498 PCA's are wholly farmer owned and the Government's investment in the system is small. This association has paid back to the Government every penny of its peak investment of \$385,000.

Finally, the proposed legislation would revamp the system through consolidation of the FICB's and PCC's; and, in our opinion, would be an exchange of a satisfactory setup for a questionable experiment, which could easily result in a considerable higher cost to the farmer and a serious crippling of the service to him. Therefore, it is recommended that there be a delay in any new legislation until agriculture is on a sounder basis.

This copy is being sent to you upon specific instructions of our board.

S. F. TRAMMELL,

Secretary-Treasurer, Alexandria Production Credit Association.

ARCADIA, LA., April 16, 1956.

Senator ALLEN J. ELLENDER,

United State Senate, Washington, D. C.

DEAR SENATOR ELLENDER: The board of directors, who represent approximately 1,500 farmers who are member-patrons of this association, has requested that I write you expressing their views regarding the proposed legislation designed to consolidate the Federal intermediate credit banks and production credit corporations.

From the information given us, the main idea behind the proposed consolidation is to effect savings in the operation of the two institutions. After a very careful study, we can see that little, if any, economy would result.

As our supervising agency, the Production Credit Corporation has always been most cooperative in permitting this association to retain sufficient capital enabling us to finance farmers in our area who have for economic reasons, converted from row crops to more diversified operations, such as livestock, dairying, poultry, etc. It is strongly felt that an independent agency such as the Production Credit Corporation would have a more sympathetic understanding of farmers' needs than an agency extending the credit and which has heavy responsibility to the purchasers of its debentures.

In other words, we feel that the system is working to the entire satisfaction of all concerned and we earnestly solicit your cooperation and influence in trying to at least postpone this legislation until agricultural conditions are more favorable.

Respectfully yours,

ROY BRICE,

Secretary-Treasurer, Arcadia Production Credit Association.

OPELOUSAS, LA., April 23, 1956.

HON. ALLEN J. ELLENDER,
*Chairman, Senate Agricultural Committee,
Senate Building, Washington, D. C.*

DEAR SENATOR ELLENDER: The directors of our association asked that I write to give you their views on the proposed legislation for the purchase of the Federal intermediate credit banks and the production credit corporations by the production credit associations.

It is the feeling of our directors that no legislation should be passed at this time. The cost of money has been rising steadily for the past year and it doesn't look like the peak has been reached. The interest rate charged our borrowers is high enough so it was necessary that this association absorb some of the increases. Any future increase will also have to be absorbed. Disturbing the present setup of the FICB's and PCC's may result in an increased cost to us of our money and that would make the situation worse. We are operating on a very narrow margin now.

Should the Congress feel that legislation is necessary at this time, we recommend the bill offered by the Farm Credit Board introduced as H. R. 10285, or any identical bill. It would be to our advantage if the effective date of such legislation be deferred for about 5 years.

Any help that you can give will be greatly appreciated.

Very truly yours,

CLARENCE HARMON, Jr.,
Secretary-Treasurer, Opelousas Production Credit Association.

TWIN FALLS IDAHO, April 21, 1956.

HON. GRACIE PFOST,
*House of Representatives,
Washington, D. C.*

DEAR MRS. PFOST: We have had the opportunity of going over the proposed bills to be presented to Congress by the Federal Farm Credit Board, and wish to again urge that Senate bill No. 3549 and House bill 10285 be approved as written, as they come nearer meeting with the approval of our board and with the plan that was discussed last summer in our district conference at Spokane.

The three amendments to Senate bill No. 3549, and included in Senate bill No. 3550, do not meet with our board's approval. On page 5, line 19, also on page 16, line 20, they are substituting a much reduced revolving fund. The associations have never, since their inception, gone through a recession, and we are doubtful if these revolving fund reductions would be wise.

On page 12, lines 23 to 25, where the Government is to hold its interest in the surplus and reserve account, this is particularly objectionable since we feel that these surplus and reserves were built up at the expense of the associations and their members through the interest rate charged, and that the Federal Government has no right to retain any interest in the same. The third change on page 23, subsections A and B of section 201, which would continue the budget provisions of the Government Corporation Control Act until the entire Government capital is retired, it seems to us that this should be eliminated even under the mixed ownership, since under the new law the PCA's contract to take the Government out in full.

May we urge that you use your good influence to see that Senate bill No. 3549 and House bill No. 10285 be approved as presented by the Farm Credit Board, without the above-mentioned amendments?

Yours very truly,

C. C. HAYNIE,
Secretary, Southern Idaho Production Credit Association.

CASPER WYO., April 14, 1956.

HON. JOSEPH C. O'MAHONEY,
*Senate Office Building,
United States Senate, Washington, D. C.*

DEAR SENATOR O'MAHONEY: We have been studying carefully the recently introduced farm credit legislation, which as you know, provides for the merger of the production credit corporation (the supervising agencies of the production

credit associations) and the Federal intermediate credit banks (the discount agencies). The proposal also provides for the purchase by the production credit association of the capital of the merged institutions, through an initial contribution, payable in 3 years, and the balance to be acquired over a period of years through the net earnings of the banks. The legislation also contains other provisions, among them features which would obviously result in increased cost of money to the production credit associations, and which would have to be passed on to the borrowers.

While we subscribe to the theory of ultimate complete ownership of the System by the production credit associations and their members, we question the advisability of forcing the purchase of these agencies on the association at this time, due primarily to the reason stated above—namely, the probable cost. This cost to associations can only be estimated, and will depend to a large degree on the margin of profit on which the banks will operate. And this margin will also have a bearing on future earnings which will determine the amount of funds available each year for patronage refunds. These refunds of course, will be issued in Federal Intermediate Credit Bank stock and, as such association owned stock increases, Government owned capital will be retired.

Our board of directors is unanimous in its opinion that the whole matter should be given another year or two of study before it is offered as legislation, in an effort to work out a more practical and equitable approach.

Senate bill 3564 and House bill 10285 are the Farm Credit Board's final version and are, we are told, identical. Senate bill 3550 was offered by the Budget Bureau as an alternate measure and obviously does not have the support of any interested parties. It provides for a reduction in the revolving fund, retention of the surplus by the Treasury in event of liquidation and would keep the new institution under the control of the Bureau of the Budget.

There will, of course, be some opposition in addition to ours, to the Farm Credit Board's bill but, from what we are able to learn, many associations over the country are supporting it. So it would appear that the bill possibly has a fair chance of passage. If such is the case we would like to have the Wyoming congressional delegation offer an amendment—copy of which is attached to this letter.

By way of explanation of this suggested amendment we might state that under the section of the bill referred to, the Governor of the Farm Credit Administration has the authority to reallocate Government-owned capital among the various districts. Those districts relinquishing capital under this authority would sacrifice income that would otherwise be available to them to aid in offsetting some of the additional expense that would be incurred by reason of the merger of the two institutions. We have been informed, through reliable sources, that under this reallocation authority, this district (8) would lose about \$3,500,000 in capital and would result in a loss of approximately \$87,500 in income annually. Capital funds are normally invested in Government bonds that return about 2½ percent.

Consequently, it is felt by the members of our board, as well as others in this district, that if the authority to enhance capital to some districts as the expense of others were deferred for 5 years it would be more equitable for all concerned. It would permit those districts for which reduction is planned to enjoy the income for that period of time, thereby aiding in building reserves and offsetting expenses that would otherwise be directly or indirectly borne by the associations. At the end of the 5-year period, it might not be so unpractical or unfair to permit the reallocation, if the need then existed. Those district banks requiring additional capital structure now could obtain paid in surplus funds from the revolving fund.

We are appreciative of the splendid cooperation you have always extended us and thank you for your help in this matter. Kind personal regards.

Very truly yours,

L. F. DAVIS,

Secretary-Treasurer, Wyoming Production Credit Association.

SUGGESTED AMENDMENT TO H. R. 10285 AND S. 3564

Insert after the word "banks", page 4, section 205 (A) (1), line 25, the following: "Provided, however, That no such reallocation shall be made by the Governor until this act has been in effect for a period of 5 years."

We do not have a copy of S. 3564, which is reportedly identical with H. R. 10285. This amendment has been prepared as it refers to H. R. 10285—section, page and line number, etc.

STATEMENT FILED BY J. OLNEY BROTT, GENERAL COUNSEL, AMERICAN BANKERS ASSOCIATION

The Nation's banks extend more credit to farmers for production purposes than any other lending agency. At the beginning of 1956, banks held \$3,249,541,000 in production loans, while the Production Credit Associations held \$653,478,000 and the Farmers' Home Administration held \$392,191,000. The members of the American Bankers Association, representing over 98 percent of the Nation's banks, number among their customers the vast majority of the farmers in the United States. We are, therefore, deeply interested and concerned in legislation affecting farm credit.

We are generally in sympathy with the objectives of S. 3549, S. 3550, and S. 3564 to facilitate farmer ownership of cooperative credit institutions and retirement of Government capital therein. These proposals would eliminate overlapping authority and some other undesirable features of the present Farm Credit Administration short-term agencies. There are, however, important provisions of the bills with which we are not in accord.

RETIREMENT OF GOVERNMENT CAPITAL

Our association has long recognized the right of farmers and others to organize cooperative businesses, including credit institutions. At the same time, we have consistently maintained that it is not the function of Government to provide free capital or other subsidies to these cooperatives which are, after all, organized for the benefit of special groups. Accordingly, it has long been our view that when free Government capital has been provided for cooperative agencies, it should be returned in the shortest possible time. As the Government strives to reduce expenditures and to achieve a balanced budget, every user of Government capital should recognize the need for immediately returning to the Treasury every dollar possible. The provisions for the return of Government capital contained in these bills are inadequate, and there is no provision whatsoever for return of surplus earned with Government funds.

Under the terms of S. 3549 and S. 3564, only the capital of the production credit corporations transferred to the Federal intermediate credit banks, amounting to \$31.5 million according to the September 30, 1955, figures shown in the Treasury Bulletin for January 1956, would be returned to the Treasury in the form of miscellaneous receipts. The balance of \$60 million would be paid into a revolving fund from which the Governor of the Farm Credit Administration at his discretion could supply additional Government capital through future subscriptions to class A stock of the banks. S. 3550 provides for an additional \$30 million to be paid to the Treasury as miscellaneous receipts, with the balance to go into the revolving fund. We believe it is contrary to sound Government fiscal policy to earmark funds to supply Government capital at some future date. Agencies in need of additional capital should be required to go before the Congress to justify the need for such funds and provide an opportunity to study and appraise their operations. Although S. 3550 represents a move in the right direction, we recommend that all proceeds of class A stock retirements be paid into the Treasury as miscellaneous receipts.

REPAYMENT OF SURPLUS

While the bills before this committee provide for eventual retirement of Government capital of these agencies, they make no provision for the return to the Government of the \$2.4 million in paid-in surplus of the Federal intermediate credit banks or the combined earned surplus of the two agencies of \$63.5 million.

These amounts represent Government investment in these two agencies created as the result of the use of Government capital without charge. These surplus funds rightfully belong to the Government. We believe that provision should be made for the prompt repayment to the Treasury of these surplus funds.

EXPENSE OF PCA SUPERVISION

These bills propose that the income derived from the surplus transferred from the production credit corporations should be used to pay the expenses of the Federal intermediate credit banks in providing supervision and assistance to the production credit associations. We fail to see why the PCA's should not pay for their supervisory services as do other financial institutions.

It is interesting to note that the Comptroller General of the United States in his report on audit of corporations of the Farm Credit Administration for the

fiscal year ending June 30, 1954, made the recommendation "that the Congress consider requiring the production credit associations to pay the cost of their supervision, which is now being paid by the production credit corporations." In support of this recommendation, the report states that, "We believe that the production credit system, assisted by the Federal Government since 1933, has now become firmly established and should be more nearly self-supporting and that the supervision of the associations is a form of direct service, the cost of which should be borne by the associations."

FRANCHISE TAX

The bills continue the present requirement that the banks pay a franchise tax to the Treasury, although application of earnings is somewhat changed. We have repeatedly taken the stand that the cooperative agencies of the Farm Credit Administration which have Government capital should reimburse the Treasury for the use of that capital on a basis at least comparable with the cost of the funds to the Treasury. The provision for the franchise tax contained in these bills is inadequate to attain the objective. We believe that the Federal intermediate credit banks as business enterprises have reached a stage of development where they have no need for further subsidy.

Generally, taxes are considered a fixed charge against earnings as a current operating expense, yet under the provisions of these bills the franchise tax will be payable only out of earnings remaining after certain amounts are set aside to restore capital impairments and to create and maintain surplus and reserve accounts. Even then, this tax will be further limited to not more than 25 percent of remaining earnings. We recommend that these provisions be amended to require the Federal intermediate credit banks to pay as a first charge against their earnings an amount on their Government capital equal to the cost of funds to the Treasury.

TREATMENT OF RESERVES

According to the 1954-55 Annual Report of the Farm Credit Administration, the Federal intermediate credit banks, as of June 30, 1955, had a combined reserve for contingencies of \$18,475,000. Under the bills now being considered each bank would establish a new surplus account by consolidating its present reserve for contingencies with its present surplus account and the surplus of the production credit corporations transferred to the bank. When this provision is considered with the provision for the annual application of earnings which apparently contemplates the building up of a new reserve account from scratch by setting aside 25 percent of annual earnings remaining after making good any impairment of capital and surplus until such reserve account equals 25 percent of outstanding capital stock and participation certificates, it would appear to have the effect of greatly extending the period before final retirement of class A stock by reducing the amount of earnings available for patronage dividends in the form of class B stock and participation certificates. We recommend that the present reserve for contingencies be retained as a part of the reserve account of the banks in order that the maximum reserve of 25 percent of outstanding capital stock and participation certificates be reached more quickly, which would sooner make available a larger portion of annual earnings to be applied to patronage dividends in the form of class B stock and participation certificates.

We appreciate this opportunity of presenting our views on this important legislation. We have endeavored to take a constructive approach in offering our recommendations for changes in these bills. We believe that the changes we have proposed are consistent with the principles set forth in the "declaration of policy" contained in the bills and at the same time will aid the Government in achieving its fundamental aims of a balanced budget and reduction of the Federal debt. We sincerely hope that our recommendations will merit your careful consideration.

STATEMENT FILED BY JAMES E. WELLS, JR., EXECUTIVE VICE PRESIDENT, FARMERS UNION LIVESTOCK ASSOCIATION, SOUTH ST. PAUL, MINN., REPRESENTING THE NATIONAL FARMERS UNION

The National Farmers Union recommends that H. R. 10285 be approved without amendments by your committee, and it is recommended that the Congress pass H. R. 10285 when approved by your committee.

As executive vice president of a farmers' cooperative, I have a double interest in this legislation, both in its effect on cooperative banks and on individual farmer loans. I have been closely associated with credit problems for a long time. For many years I was deputy governor of the Farm Credit Administration and commissioner of the banks for cooperatives.

Especial consideration was given to the fact that by the merger of the production credit corporations in Federal intermediate credit banks duplications in the review of rediscountable paper and other functions will be eliminated and costs reduced. Some have thought that there should be a separate corporation for supervision and a separate corporation for rediscounting. Such an arrangement would continue the inefficiencies that now exist; the bill provides for adequate departmentalization for the administration of these two functions; these functions would be cared for under the merged banks in a manner similar to that followed by the Federal Reserve System and the Federal land banks.

Questions have been raised as to whether other financial institutions, other than the production credit associations, that are authorized to borrow and rediscount with the merged Federal intermediate credit banks would receive credit under the merged banks as adequate as the credit which they have received during the past. It is believed that better credit service will be received by the other financial institutions under the merger plan. The authority and the directive to do so are clearly written into the bill; Farm Credit Administration officials have informed us that every effort will be made to make these functions operate effectively.

In regard to the borrowings by the bank for cooperatives, it is believed that their credit needs will be provided for better under the merged Federal intermediate banks. The credit needs of the banks for cooperatives may be met at the farm credit district level rather than at the Washington level with less loss of motion and with increased efficiency.

If any amendment were to be offered, consideration might be given to permitting intermediate credit up to 10 years instead of the 7 years provided in the bill; however, it seems desirable first to obtain experience in the selling of debentures of the Federal intermediate credit banks under the 7-year term.

The retention of the name Federal intermediate credit banks, the capital structure left with the banks after the merger, and the revolving fund provided for additional capital requirements appear ample for the continuous sale of debentures of the system to the investing public; these provisions seem adequate for any foreseeable future contingencies.

All in all, the passage of the bill will provide improvements in the efficiency of operations, a possible reduction in costs of operations, a centering of responsibility in the rediscounting of paper, and a capital base so that adequate lending funds may be made available through the sale of debentures.

STATEMENT FILED BY JEROME J. BURKE, SECRETARY-MANAGER, PRODUCERS LIVE STOCK CREDIT CORP., CHICAGO, ILL.

The Producers Live Stock Credit Corp., of Chicago, lends money for cattle and sheep production to farmers and ranchers over 12 Midwestern States.

Since organization in April 1924, the Producers Live Stock Credit Corp. has discounted with the Federal Intermediate Credit Bank of St. Louis, and is the largest single discounter with that bank.

Because we feel that the proposed legislation is discriminatory and unsound, we definitely oppose it. We oppose this bill for the following reasons:

1. We object to paying part of the cost of supervision of the production credit associations. There seems to be no precedent for this, as the other financing concerns of this country pay for their own supervision.

2. Other financing institutions will, while acquiring participation certificates, have no vote in Federal intermediate credit bank affairs. The voting stock is all to be held eventually by the production credit associations. This is gross discrimination.

3. Upon liquidation, the surplus accumulated prior to this bill becoming law will go to the production credit associations as B stockholders. This surplus actually belongs to the United States Government. However, if it is not to revert to the Government, then it should be distributed equitably to the users, including both production credit associations and the other financing institutions. The other financing institutions have been contributing to this surplus since 1923.

4. The collateral requirements should be uniform. Any restrictions should be based on the qualifications of the farmer-borrower and the financial condition of the discounting agency. The collateral requirements should not be based on whether the discounting agency happens to be classified as a production credit association or as an other financing institution. These differences in collateral are set forth in sections 202a (1) and (2) and section 6 (i) (1).

5. Terminating employment of Federal intermediate credit bank employees is unnecessary as the Federal intermediate credit banks are not being liquidated as are the production credit corporations.

6. This bill requires the purchasers to pay for 15 percent of the stock within a period of 2 years. Under present agricultural conditions this requirement will be difficult to accomplish unless the Governor, under powers granted, uses the revolving fund to provide many of the purchasers with the funds needed to finance the purchase.

All of the above objections to the bill, however, are secondary. The principal objection we have is changing the status of the Federal intermediate credit bank system at this time. We believe this will increase rates to farmer and rancher users. We recommend that this bill be rejected and the Federal intermediate credit banks maintained on their present basis.

The Federal intermediate credit bank system has an enviable reputation, acquired from 33 years of furnishing sound, dependable, and effective agricultural credit throughout the country, at minimum cost to the Government. This reputation is reflected in the confidence of the investing public in the Federal intermediate credit banks' public offerings of debentures.

The Federal intermediate credit bank program should not be disturbed at this critical period. We recommend the rejection of this bill. We have read the testimony of P. O. Wilson, secretary-manager of National Live Stock Producers Association, and we are in complete agreement with that statement and endorse it in its entirety.

STATEMENT FILED BY W. A. HAMBRIGHT, SECRETARY-TREASURER, SOUTH CAROLINA FEDERATION OF PRODUCTION CREDIT ASSOCIATIONS, SPARTANBURG, S. C.

My name is W. A. Hambright, secretary-treasury of the Spartanburg Production Credit Association, Spartanburg, S. C., and I am also a farmer residing in Cherokee County. Mr. E. B. Sanders, president of the South Carolina Federation of PCA's, has requested that I appear here representing our State federation in the capacity of its secretary-treasurer. Mr. Sanders asks that I express his regrets in his inability to be here at this hearing.

We deeply appreciate the opportunity to appear before this committee to express our views on this important subject.

We are here in behalf of the farmers who own the 21 PCA's in South Carolina in support of bill H. R. 3564.

We are here to oppose the enactment of certain parts of bill S. 3550 because, in our opinion, certain proposals in the bill are detrimental to the welfare of the production credit system, and jeopardize the plan of making the intermediate credit banks completely farmer owned.

On December 1 and 2, 1955, a districtwide meeting for directors and secretary-treasurers comprising the 87 PCA's in the Third Farm Credit District was held in Columbia, S. C. It should be emphasized that this was a 2-day meeting held for the purpose of discussing the proposals of the principles contained in bill S. 3564, and for obtaining the grassroots thinking from directors throughout the district. After a day's explanation and discussion of the bill the meeting split up into State groups for further consideration of the principles contained in this bill, then on the following day reconvened and voted unanimously to support the principles contained in S. 3564.

We believe that this bill represents the majority of the thinking of the directors and officers of the production credit system. At the suggestion of our Federal Farm Credit Board, the Governor and his staff conducted a hearing in each of the 12 farm credit districts during the latter part of the year 1955. At these meetings opportunity was given for free expression of thought concerning the proposed legislation. We believe this bill represents a sincere effort to reconcile many different points of views found in associations through the Nation and other financing institutions using the services of the credit banks.

Section II of the Farm Credit Act of 1953 states the policy and intent of the Congress with respect to the management, control, and ownership of the farm credit system. It reads:

"SEC. 2. It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this act shall be construed in keeping with this policy. The Federal Farm Credit Board hereinafter provided for shall within 1 year after appointment make recommendations to the Congress of means, supplemental to those provided by this act, of carrying into effect such declared policy, including, but not limited to, means of increasing borrower participation in ownership of the Federal farm credit system to the end that the investment of the United States in the Federal intermediate credit banks, production credit corporations, central bank for cooperatives, and regional banks for cooperatives may be retired."

We like this policy statement and want to see it activated and its objectives accomplished.

The declared policy of S. 3564 proposes to carry out these objectives and significantly proposes to merge the production credit corporations in Federal intermediate credit banks, and to facilitate farmer ownership of the merged banks and retirement of Government capital therein.

The proposal to merge these institutions makes good sense to us. It should promote efficiency within the system and lower the expense of supervision to the associations.

We are opposed to the enactment of S. 3550, page 5, line 19, which in effect would reduce the revolving fund of the 12 Federal intermediate credit banks from \$100 million to \$70 million. We believe that, with the proposed merger effected, the revolving fund may be needed and that it should remain at \$100 million.

Also, we are opposed to the language on page 12, lines 23 to 25, which would have the effect of giving the Federal Government a continuing interest in the surplus and reserves of the credit banks after all Government capital has been retired. We think the surplus should be retained in the system because Congress has already set a precedent for leaving surplus in the Federal land bank. A second reason is that much of the surplus of the production credit corporations was earned in this manner: In the early days of the associations they owned 4 percent Government securities. Under an agreement that the corporation invested this money into the associations, in those early days, they had a bond-repurchase agreement which gave them authority to do this, which they did. They told us that they were going to sell our 4 percent securities because they were at a high premium. The corporation took the profits of that, and gave to the associations, eventually, 2½ percent securities.

A considerable amount of money was made on this transaction, and that is a part of that surplus. We think that surplus rightfully belongs to our associations, our farmer members. Since the Congress has treated the Federal land bank as they did with respect to the surplus, we think that the farmer members own the surplus in the corporations, and therefore, think that this surplus should remain in the system.

We think it is important that the surplus be left as a cushion to help defray expenses of administration and supervision. We think the Farm Credit Act is good—it is important to agriculture, but the Farm Credit Administration is not serving its intended purpose unless adequate provisions are made to enable PCA's to extend credit to the farmers at a reasonable cost. The overall cost of money to farmers in our Association is now approximately 8 percent. We think that is too high.

Then, on page 23 of S. 3550 we oppose the language under subsection (a) which combines into a single subsection the subsections (a) and (b) of 201 of bill S. 3564. The effect of this change would be to keep the intermediate credit banks subject to the budget provision of the Government Corporation Control Act until the last dollar of Government capital is retired.

We hope that the Congress will enact the proposed legislation contained in bill S. 3564 and other identical bills which have been introduced. We believe that the end result of this act is designed to provide agriculture with a permanent source of credit and to enable PCA's to ultimately own the Federal Intermediate Credit Banks, which was the original intent of the Congress as set forth in section II of the Farm Credit Act of 1953.

STATEMENT FILED BY CARLOS VAL. SMITH, SECRETARY-TREASURER, AND W. D. WALKER, PRESIDENT, WACO PRODUCTION CREDIT ASSOCIATION, WACO, TEX.

We shall discuss here S. 4564, introduced by Senator Holland, of Florida; H. R. 10285 introduced by Representative Cooley; H. R. 10286 introduced by Representative Hope, of Kansas; H. R. 10315 introduced by Representative Ponge, of Texas. These four bills are identical in text. Hence we shall refer to them in the singular.

We have agreed with the majority of the production credit associations of our district that this bill, as far as it goes, is a good bill. We have no disposition to delay or impede its passage, if it is what the production credit associations of the entire system want and if the objections which we shall raise herein are met.

Our association however, is one of those who feel that some important things have been left out of the bill. The objections which we shall raise have been called to the attention of the Federal Farm Credit Board heretofore, with recommendations for their remedy, but without result. Therefore, we shall present our objections and recommendations to the Congress, hoping they may be received with more consideration.

Objection No. 1: No provision for "increased control"

This legislation, like the "Farm Credit Act of 1955," is designed to comply with the statement of policy contained in the Farm Credit Act of 1953 (Public Law 202), which says:

"It is declared to be the policy of the Congress to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration, and the provisions of this act shall be construed in keeping with this policy."

It has been, and is, our belief that "control should go with ownership." It was to be expected that the Federal Farm Credit Board, in preparing this bill, would have had due regard to the statement of policy of the Congress quoted above, which specifies "management, control and ultimate ownership" as its goals, not simply ownership. Yet this bill fails to make any provision for the purchasing associations to acquire increased control of the merged Federal intermediate credit bank as they acquire ownership.

Our association, in common with many others, feels that the present arrangement, under which the PCA's of a district have 2 elected directors on a district board of 7 men, does not constitute control. This arrangement is fairly satisfactory so long as we do not own the credit bank, but when we have invested our money and have retired the Government capital from the merged bank and own it, we cannot agree that 2/7 representation on the board of directors will give us effective control. The proposed act does not provide for voluntary participation in the purchase of stock in the bank, but makes it compulsory for the PCA's to invest their capital. This is doubtless necessary to the success of the plan for retirement of the Government capital, but it would seem that simple justice would dictate that the same act should provide the means for giving the purchasing associations "increased control" along with their progressive assumption of ownership. And, we repeat, this clearly is the intent of the Congress as quoted above from the act of 1953.

If it be thought that the omission of provision for controls from this bill is an oversight, let us look at the "Declaration of Policy" (sec. 2.), which reads as follows:

"It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit: to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy."

This declaration appears to have been very carefully written, and it makes it appear that the Congress has backed away from the policy contained in the Farm Credit Act of 1953, previously quoted. Notice that it omits any reference to "management and control" and bears down on "farmer ownership" only. Without attempting to impugn motives, we are nevertheless faced with these questions:

Why did the Federal Farm Credit Board feel it necessary to restate the policy of the Congress?

Why did it not simply let the original (1953) declaration of policy stand and reaffirm it?

Does this indicate that the Farm Credit Administration now looks askance at "borrower participation in management and control" and would limit borrower participation to ownership only?

We can only raise these questions not answer them. But we can state positively that the production credit associations of the Nation have not changed their views and they are expecting the policy adopted in 1953 to be carried out. We do not believe that the Congress has changed its policy, and we submit that the proposed declaration of policy does not properly represent nor express the policy of the Congress.

If this be considered an unimportant matter, let it be remembered that several attempts have been made in the past, by persons and interests opposed to the principle of farmer-borrower control of our system, to reverse our plan and to gather up the controls in Washington. Although these attempts were thwarted, we are not at all certain that further attempts will not be made. We hope there are no longer any persons in the Farm Credit Administration who disapprove of the principle of borrower management and control of our agricultural credit system, but if there are, the proposed restatement of congressional policy in the aforementioned declaration of policy, if enacted, would be a useful tool for their purposes.

Recommendation.—We recommend:

(1) That the declaration of policy in section 2 be rewritten or amended so as to reaffirm in all particulars the policy contained in the Farm Credit Act of 1953.

(2) That the bill be amended to provide that the purchasing associations shall obtain control of the merged Federal intermediate credit banks progressively as they acquire ownership. (Our association favors the plan of separate, but interlocking boards of directors for the three units of the Farm credit system in each district.)

Objection No. 2: No provision for hardship cases

The attention of the Federal Farm Credit Board was called to the absence from this bill of any provision for allowing an extension of time for the initial investment of association capital in the merged bank where it would cause an association hardship. In our district, several associations have been and are experiencing a prolonged drought. In others, there are associations that, due to limited capital and small income, may find it hard to meet the scheduled payments on time. Our association, being a more or less average PCA, would have to take about \$26,766 out of our present working capital, in 3 installments over a period of 2 years. This is equivalent to 90 percent of our total profits for the past 5 years, and is equal to 6.7 percent of our present capital and surplus. We doubt if we can take this amount out of our working capital without some impairment of our operation. We feel certain that a comparable withdrawal from the capital of those associations that are undergoing more difficult conditions would cause even more embarrassment to them.

We think that the bill should make provision for some flexibility in requiring the investment of association funds in the merged banks. If this is not done, and an association found itself unable to meet an installment, its only recourse would be to request the Governor of the FCA to invest some Government capital out of the revolving fund to take up the slack. It would be hard to imagine a more absurd situation than that of an association being obliged to get capital from the Government with which to retire Government capital from the bank.

Recommendation.—That the bill be amended to permit the Federal intermediate credit bank of a district to grant an extension of time for the initial 15-percent investment, or any installment thereof, to an association that would be unable to make such investment without serious hardship.

We respectfully submit these recommendations to the consideration of all members of the Senate and the House of Representatives, and particularly to the members of the Committees on Agriculture of the two Houses.

FREEPORT, ILL., April 23, 1956.

Senator HOLLAND,
Senate Agriculture Committee,
Senate Office Building, Washington, D. C.:

Board of directors representing 1,241 members of this association in favor of Senate bill S. 3564 and urge its passage. We would like this telegram included in the hearing now before your committee.

H. E. McCLEARY,
President, Blackhawk Production Credit Association.

BLOOMINGTON, ILL., April 23, 1956.

Senator HOLLAND,
Senate Agriculture Committee,
Senate Office Building, Washington, D. C.

Senator HOLLAND: The board of directors of this association representing 1,422 members ask that this message be read into the record of the Senate agricultural hearing of Senate bill 3564. We sincerely request that the committee act favorable on this bill as it brings about economy of operation and provides the method for complete farmer ownership of the production credit system.

ARTHUR W. NAFZIGER,
President, Bloomington Production Credit Association.

CHAMPAIGN, ILL., April 23, 1956.

Senator HOLLAND,
Senate Agriculture Committee,
Senate Office Building, Washington D. C.:

Board of directors of our association urges support of S. 3564 merging assets of production credit corporations and Federal intermediate credit banks, also favors amendment naming new merged institution production credit bank.

J. FRED ROMINE,
President, Champaign Production Credit Association.

CHARLESTON, ILL., April 23, 1956.

Senator HOLLAND,
Senate Office Building, Washington D. C.:

Favor Senate bill 3564 merging assets of Federal intermediate credit bank and production credit corporation. Your support of bill will be appreciated.

CHARLES R. PINNELL,
President, Charleston Production Credit Association.

GONZALES, TEX., April 23, 1956.

Hon. SPESSARD L. HOLLAND,
Chairman, Subcommittee,
United States Senate, Washington, D. C.:

Reference Waco Production Credit Association's expose in regards change in declaration of policy in Farm Credit Act of 1956, believe that the definite change should be investigated and see no reason why declaration of Farm Credit Act of 1956 should not be substituted with reference to claims of other financing institutions which have done business with intermediate credit banks much longer than PCA's. We have no objection to treating them on parity with PCA's as to ownership and control. We feel that they are being discriminated against in impending legislation.

GONZALES PRODUCTION CREDIT ASSOCIATION.

JACKSONVILLE, ILL., April 23, 1956.

Senator HOLLAND,
*Senate Office Building,
 Senate Agriculture Committee, Washington, D. C.:*

Jacksonville Production Credit Association urges passage Senate bill 3564.
 We represent 600 farmers.

LEROY O. CASTLE, *President*,
 G. E. SPENCER, *Secretary*.

JONESBORO, ARK., April 23, 1956.

Senator HOLLAND of Florida,
Washington, D. C.:

The Jonesboro Production Credit Association endorses Senate bill 3564. We believe your bill will make production credit associations fully farmer owned. We suggest the name be changed from Federal Intermediate Credit Bank to Production Credit Bank.

W. C. SLOAN, *President*.

KEWANEE, ILL., April 23, 1956.

Senator HOLLAND,
Senate Office Building, Washington, D. C.:

Re Senate bill 3564: We wish to inform you that the Kewanee Production Credit Association with farmer membership of approximately 950 is in favor of this bill and urge you to vote favorable in your committee.

GEORGE F. HAYES, *President*.
 C. E. HUMPHREY, *Secretary-Treasurer*.

LAKELAND, FLA., April 11, 1956.

Hon. SPESSARD L. HOLLAND,
United States Senator, Washington, D. C.:

As directors of the Lakeland Production Credit Association, representing 583 members, we very much appreciate Senate bill 3564, which you have introduced. We are thoroughly in favor of this bill.

H. H. HOWELL,
 PAUL H. CALVIN,
 D. E. CANNON,
 A. T. RACE, Jr.,
 R. L. COUNCIL.

MACOMB, ILL., April 23, 1956.

Senator HOLLAND,
Senate Office Building, Washington, D. C.:

The board of directors of the Macomb Production Credit Association have unanimously endorsed Senate farm credit bill Number 3564 we would like to have this endorsement included in the minutes of the Senate hearing on the bill.

GLEN VANCE, *President*.

PITTSFIELD, ILL., April 23, 1956.

Senator HOLLAND,
*Member Senate Commission on Agriculture,
 Senate Office Building, Washington, D. C.:*

Re Senate bill No. 3564 board of directors of Mississippi Valley Production Credit Association representing 965 farmer members are wholly in agreement with the above bill and request they be registered as being in favor of its passage.

MISSISSIPPI VALLEY PRODUCTION CREDIT ASSOCIATION,
 J. WES SMITH, *President*.

MONMOUTH, ILL.,
April 23, 1956.

Senator HOLLAND,
Senate Office Building, Washington, D. C.:

The board of directors of the Monmouth Production Credit Association of Monmouth, Ill., wants you to know that they unanimously favor Senate bill 3564 now in Senate Agricultural Committee.

Monmouth Production Credit Association,
OTTO STEFFEY, *President.*

MARKED TREE, ARK.,
April 21, 1956.

Senator HOLLAND,
Washington, D. C.:

We, the board of directors, Poinsett Production Credit Association have gone over contents Senate bill 3564 introduced by you, and we favor the same and thank you for introducing it. Bill will provide ultimate ownership by farmers. Would like to see name changed to Production Credit Bank.

H. P. MADDOX, Sr.,
J. G. STUCKEY, Sr.,
J. H. PRESTIDGE, Sr.,
C. O. WOFFORD,
L. V. RITTER, Jr.

DANVILLE, ILL.,
April 23, 1956.

Senator HOLLAND,
Senate Agriculture Committee,
Senate Office Building,
Washington, D.C.:

Our association asks that you support Senate bill 3564 to merge assets of production Credit Corporations and Federal intermediate credit banks. We favor amending the bill to name the Northwest merged bank Production Credit Bank of (name of city).

LESTER M. BURD,
President, Vermillion County Production Credit Association,
Danville, Ill.

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LEGISLATIVE HISTORY

Public Law 809
H. R. 10285

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Index and summary of H. R. 10285.1
Digest of Public Law 8092

INDEX AND SUMMARY OF H. R. 10285

- Mar. 28, 1956 Sen. Ellender introduced S. 3549 and S. 3550 which were referred to the Senate Agriculture and Forestry Committee. Print of bills.
- Mar. 29, 1956 Sen. Holland introduced S. 3564 which was referred to the Senate Agriculture and Forestry Committee. Print of bill as introduced.
- Rep. Cooley introduced H. R. 10285, Rep. Hope H. R. 10286, and Rep. Poage H.R. 10315, which were referred to the House Committee on Agriculture. Print of bills as introduced.
- Apr. 27, 1956 House subcommittee ordered H. R. 10285 reported to the full committee.
- May 14, 1956 House committee reported H. R. 10285 with amendments. House Report No. 2160. Print of bill and report.
- May 17, 1956 House Rules Committee reported resolution for consideration of H.R. 10285. H. Res. 508 and House Report No. 2175. Print of resolution and report.
- May 31, 1956 House passed H. R. 10285 with amendments.
- June 4, 1956 H.R. 10285 was referred to the Senate Committee on Agriculture and Forestry. Print of bill as referred.
- June 6, 1956 Senate committee reported with amendments H.R. 10285. Senate Report No. 2145. Print of bill and report.
- June 11, 1956 Senate passed over H. R. 10285 at the request of Sen. Bible.
- July 12, 1956 Senate passed H. R. 10285 with amendments.
- July 16, 1956 House concurred in Senate amendments to H. R. 10285.
- July 26, 1956 Approved: Public Law 809, 84th Cong.

Hearings: Senate Agriculture and Forestry Committee on S. 3549, S. 3550, and S. 3564, April 23 and 24, 1956.

House Committee on Agriculture on H. R. 10285, 10286, 10315, and 10392, April 19, 20, and 21, 1956. Serial WW.

posed projects initiated under the Act.

Public Law 736 (H. R. 9451) SUBMARGINAL LANDS FOR SEMINOLE INDIANS (approved July 20, 1956). Provides that certain submarginal lands, previously under the jurisdiction of the Agriculture Department, be held in trust for the Seminole Indians.

Public Law 742 (H. R. 8617) SALE OF LAND TRACT (approved July 20, 1956). Requires the sale of a tract of Forest Service land to Corbin, Ky., at fair market value.

Public Law 747 (H. R. 9339) LAND EXCHANGE IN CHATTAHOOCHEE FOREST (approved July 20, 1956). Authorizes exchange of a land tract in the Chattahoochee National Forest, Ga.

Public Law 752 (H. R. 11375) SCHOOL MILK PROGRAM (approved July 20, 1956). Extends the special school milk program to non-profit child-care organizations whether or not they are for underprivileged children.

Public Law 754 (S. 1358) FLOOD CONTROL PROJECT (approved July 24, 1956). Authorizes modification of the flood-control project for a Missouri River Agriculture Levee Unit in Nebraska.

Public Law 756 (S. 3120) CONTINUATION OF AGRICULTURAL CONSERVATION PROGRAM (approved July 24, 1956). Amends the Soil Conservation and Domestic Allotment Act so as to continue for 2 years (through December 1958) Federal administration of the Agricultural Conservation Program.

Public Law 758 (S. 2517) TONGASS FOREST RECEIPTS (approved July 24, 1956). Makes available to Alaska 25% of receipts from sale of timber in the Tongass National Forest hereafter received or heretofore received and held in special deposit account. Makes available 10% of such receipts to the Department for road and trail work in the national forests in Alaska. Retains 65% of the receipts in the special deposit account until possessory rights of Alaska natives to land and timber are determined. Provides that Alaska shall pay to the U. S. 25% of moneys required to satisfy possessory claims up to a maximum of the total amount received by the Territory from the U. S. as its share of the receipts. Provides that such payments by the Territory be effected to the extent possible by deductions from payment due the Territory under the 25% receipts law.

Public Law 778 (H. R. 9333) AMENDMENT OF COMMODITY EXCHANGE ACT (approved July 24, 1956). Amends this Act by broadening the statutory definition of bona fide hedging so as to exempt from the application of speculative trading and position limits, subject to administrative regulations, the purchase of commodity futures by a processor or manufacturer in an amount not in excess of his unfilled anticipated requirements for an operating season. Under previous law, purchases of commodity futures could not be classified as bona fide hedging unless offset by fixed price sales requirements.

Public Law 781 (H. R. 8898) LAND PURCHASE IN CACHE FOREST (approved July 24, 1956). Authorizes appropriation of \$200,000, to remain available until expended, for purchase of land in the Cache National Forest, Utah. Provides that funds shall be expended only to the extent that they are matched by local donations of money or land of not less than equal value. Prohibits the Department from issuing grazing permits for land acquired for matching purposes.

Public Law 786 (S. J. Res. 182) COMMISSION ON GOVERNMENT SECURITY (approved July 25, 1956). Extends the time for filing the final report of this Commission from Dec. 31, 1956 to June 30, 1957.

Public Law 789 (S. 3344) CONVEYANCE OF LAND IN ALASKA (approved July 25, 1956). Authorizes the Department to convey to Alaska, without reimbursement, for use as a historic monument site, a tract of land and improvements known as the Baranof Castle site, which had earlier been used as a site for an agricultural experiment station.

Public Law 790 (S. 3032) FOREST FIRE COMPACT (approved July 25, 1956). Approves the Middle Atlantic Interstate Forest Fire Protection Compact. The Compact would provide for individual State fire plans and an integrated regional fire plan. The Compact authorizes its administrator to request the Forest Service to act as the research and coordinating agency of the Compact.

Public Law 798 (H. R. 9593) PAYMENT OF OBLIGATIONS (approved July 25, 1956). Provides for the merging of all prior-year obligated balances into one consolidated account for the same general purposes within each agency. Authorizes the agencies to pay those bills on which there is no dispute but for which the appropriations have lapsed and make them chargeable to the lapsed appropriations in the same manner as bills payable from currently available appropriations.

Public Law 801 (H. R. 10368) EMPLOYMENT AND EXPENDITURE DATA FOR PROPOSED LEGISLATION (approved July 25, 1956). Requires submission of employment and expenditure estimates in connection with legislative recommendations initiated by departments and agencies, if the annual cost would be over \$1 million.

Public Law 804 (S. 2572) INTERCHANGE OF FOREST AND DEFENSE LANDS (approved July 26, 1956). Authorizes the Secretary of Agriculture and the Secretary of a military department of the Department of Defense, when mutually agreed upon and when in the public interest, to exchange lands or interests in lands under the administration of their respective departments. Lands received in exchange by the Secretary of Agriculture would become national forest lands subject to the Weeks law. Lands received by a military department would thereafter be subject only to the laws applicable to other lands under control of the Department of Defense. Provides that no such interchange of land shall become effective until 45 days after submission to Congress by the respective Secretaries of notice of intention to make the interchange.

Public Law 806 (S. 3832) DISPOSAL OF RUBBER LABORATORIES (approved July 26, 1956). Transfers the Government synthetic-rubber laboratories at Akron, O., to GSA for disposal, first by sale to the public in accordance with the Federal Property and Administrative Services Act, and in default of such sale, by transfer to any interested Federal agency.

Public Law 807 (H. R. 7723) CONVEYANCE OF FOREST SERVICE TRACT (approved July 26, 1956). Directs this Department to convey to the Chamber of Commerce at Rolla, Mo., a tract of Forest Service land with a reverter clause if the tract is not used for public purposes.

Public Law 809 (H. R. 10285) FARM CREDIT ACT OF 1956 (approved July 26, 1956). Provides for the merger of the production credit corporation in the Federal intermediate credit bank in each of the twelve Farm Credit districts. The merged institution would still be known as the "Federal intermediate credit bank." The Government capital in the credit banks would be retired over a period of years and the banks would become wholly owned by the production credit associations which

are now largely farmer owned.

With minor exceptions, all assets, liabilities, and functions of the production credit corporations would be transferred to the credit banks on the effective date of the legislation (January 1, 1957). The banks would be required to provide the production credit associations with essentially the same kind of supervision and service now furnished by the production credit corporations.

The credit banks would issue two new classes of stock. Class A stock would be owned solely by the United States and would be substituted for the existing stock of the credit banks and production credit corporations, all of which is owned by the United States. Class B stock of the banks would be owned solely by the production credit associations and would be acquired by a specified initial purchase and by subsequent distributions of earnings of the banks as patronage refunds in the form of class B stock. Class A stock would be retired partly from funds derived from the initial sale of class B stock and, over a period of years, the balance would be retired from net earnings of the banks.

Provides a new method of distribution of earnings of the banks. After reserves, franchise taxes (same tax provision applies to land banks and banks for cooperatives), and dividends when applicable, net earnings would be distributed as patronage refunds in class B stock to production credit associations and in participation certificates to other patrons of the banks.

The surplus of the banks on hand on the effective date of the legislation would not be allocated and could not be paid out as patronage refunds or as dividends. In the event of liquidation, any such surplus remaining (excluding that transferred from the production credit corporations) would be distributed to the OFIs (other financing institutions) to the extent that they have contributed to it since the banks were organized and the balance of such surplus (including that transferred from the production credit corporations) would be distributed to the holders of class A stock and class B stock pro rata.

The Act contains a number of other amendments to existing law which, for the most part, are made necessary by the merger.

~~Public Law 810 (H. R. 9742) OKEFONOKEE WILDLIFE REFUGE (approved July 26, 1956). To protect the Okefonokee National Wildlife Refuge, Ga., against damage from fire and drought; authorizes the Interior Department to construct a road around the refuge, together with fire-access roads; and authorizes construction of a sill and dike in the Suwanee River and additional sills at other appropriate points in the refuge to prevent drainage of the Okefonokee Swamp during periods of drought.~~

~~Public Law 814 (H. R. 12138) (the first) SUPPLEMENTAL APPROPRIATION ACT, 1957 (approved July 27, 1956). Provides \$189,000 increase in the administrative-expense limitation for Sugar Act program; \$13,000,000 to enable the Secretary of the Treasury to subscribe and pay for capital stock of the Federal Crop Insurance Corporation in order to provide adequate working capital; \$2,500,000 to ARS, primarily for the eradication of the Mediterranean fruitfly; \$500,000 for acquisition of forest land within the Superior National Forest, Minn., subject to local governmental approval; \$40,000 to construct a ski shelter in the Mt. Baker National Forest, Wash.; \$16,250,000 for animal disease laboratory facilities; \$385,000 for the Budget Bureau to assist in effectuating Hoover Commission recommendation on budgeting, accounting, and management; \$300,000 for the Advisory Committee on Weather Control; \$632,500 for the Commission on Govern-~~

ment Security; 3,000,000 for export control by the Commerce Department; 88,000,000 increase in the capital of the GSA general supply fund; 125,000 for loans by the Virgin Islands Corporation; 150,000 for the D. C. Auditorium Commission; and funds for payment of claims, audited claims, and judgments, (USDA items above are included in table of appropriations at the end of this Digest).

Public Law 815 (H. J. Res. 604) WORLD TRADE FAIR AND OKLAHOMA SEMI-CENTENNIAL (approved July 27, 1956). Authorizes the President to invite the States of the Union and foreign countries to participate in the U. S. World Trade Fair to be held in New York City, N. Y., from April 14 to 27, 1957, and in the Oklahoma Semi-Centennial Celebration to be held in various communities in the State of Oklahoma from January 1 to December 31, 1957.

Public Law 828 (S. 3481) FOREIGN SERVICE ACT AMENDMENTS OF 1956 (approved July 28, 1956). Amends various sections of this Act. Authorizes State Department commissary, mess, and recreation facilities to be used by employees, and their dependents, of other Government employees stationed abroad. Authorizes use of State Department vehicles for transportation of other Government employees who are American citizens, and their dependents, to and from recreation facilities when public transportation is unsafe or unavailable.

Public Law 829 (S. 2216) EXPANDED USES OF NATIONAL FOREST LANDS (approved July 28, 1956). Authorizes the Secretary of Agriculture, under such terms and conditions as he deems proper, to permit the use and occupancy of not to exceed 80 acres of national-forest land for periods not exceeding 30 years, for the following purposes: (1) constructing or maintaining hotels, resorts, and any other structures or facilities necessary or desirable for recreation, public convenience, or safety; (2) constructing or maintaining buildings, structures, and facilities for industrial or commercial purposes whenever such use is related to or consistent with other uses on the national forests; (3) construction or maintenance, by any State, political subdivision thereof, or any public or nonprofit agency, of buildings, structures, or facilities necessary or desirable for education or for any public use or in connection with any public activity. The act also authorizes the Secretary to permit the use and occupancy of not to exceed 5 acres of national-forest land, for periods not exceeding 30 years, for the construction or maintenance of summer homes and stores.

Public Law 830 (H. R. 6376) PUBLIC LAND GRANT TO ALASKA (approved July 28, 1956). Provides for the grant of not to exceed 1 million acres of U. S. public lands to Alaska to help establish a mental health program. Defines certain land claims, for purposes of the act, to include claims of holders of permits issued by this Department on lands eliminated from national forests.

Public Law 834 (S. 3458) HOMESTEAD ENTRYMEN LEAVES OF ABSENCE (approved July 30, 1956). Grants leaves of absence until March 1, 1959 to persons holding a homestead entry to public lands, and permits the suspension of cultivation and improvement operations on homestead and desert land entries, under certain conditions.

Public Law 842 (H. R. 5337) AMENDMENTS TO PERISHABLE AGRICULTURAL COMMODITIES ACT OF 1930 (approved July 30, 1956). Amends this Act relating to practices in the marketing of perishable agricultural commodities. Eliminates the necessity of proving "fraudulent purposes" in connection with the misbranding of any perishable agricultural commodity. Makes misrepresentation of the "region of origin" a violation of the Act. Permits the Secretary to deny issuance of a license to any person convicted of a felony in any State or Federal court. Authorizes the Secretary to deny a license to any applicant who has been involved in bankruptcy proceedings within 3 years unless the applicant furnishes a bond or other assurance satisfactory to the Secretary. Empowers the Secretary to suspend the license of a person who employs in any responsible position an individual whose license is under suspension. Provides authority for the inspection of any perishable commodity covered by the Act.

S. 3549

IN THE SENATE OF THE UNITED STATES

January 10, 1906.

Mr. [Name] reported the following bill for the purpose of
[Title of Bill]

A BILL

To [Title of Bill]
[Text of Bill]

Enacted at [City] on [Date] 1906.

84TH CONGRESS
2D SESSION

S. 3549

IN THE SENATE OF THE UNITED STATES

MARCH 28 (legislative day, MARCH 26), 1956

MR. ELLENDER (by request) introduced the following bill; which was read twice
and referred to the Committee on Agriculture and Forestry

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the Farm Credit Act of 1956.

4 DECLARATION OF POLICY

5 SEC. 2. It is declared to be the policy of the Congress
6 to continue to provide agriculture with a sound, dependable
7 source of credit; to combine into a single entity certain farm
8 credit institutions in order to increase the efficiency of opera-

tion and facilitate the retirement of Government capital; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with the combined entity on a basis comparable with the production credit associations.

TITLE I—PRODUCTION CREDIT SYSTEM

MERGER OF PRODUCTION CREDIT CORPORATIONS IN

FEDERAL INTERMEDIATE CREDIT BANKS

SEC. 101. (a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit

1 Administration to be held by him on behalf of the United
2 States, and the Governor shall cancel an equal par amount of
3 stock of the corporation.

4 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
5 CREDIT ASSOCIATIONS.—In order to carry out the declared
6 policy of this Act with respect to the production credit
7 associations, the Farm Credit Administration shall, by appro-
8 priate provisions in the charter and bylaws, or otherwise,
9 provide for such organization and assignment of functions
10 within the Federal intermediate credit banks as will assure
11 proper supervision of and assistance to the production credit
12 associations in a manner which will enable them to make
13 sound credit available to farmers and ranchers. The income
14 derived from the surplus transferred from the production
15 credit corporation to the Federal intermediate credit bank
16 of the district shall be used to pay expenses of the bank
17 in providing such supervision and assistance, and expenses
18 in excess of such income may be paid out of other resources
19 of the bank.

20 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
21 other provision of law, the employment of the officers and
22 employees of each Federal intermediate credit bank and each
23 production credit corporation is terminated on the effective
24 date of this Act and the board of directors of the Federal
25 intermediate credit bank shall, not later than sixty days

1 prior to the effective date of this Act, take all necessary
2 action to reemploy as of such effective date such of the offi-
3 cers and employees so terminated in such capacities as the
4 board determines they are qualified and needed to carry
5 out the functions, powers, and duties of the Federal inter-
6 mediate credit bank. Such reemployment shall be subject
7 to the approval of the Farm Credit Administration.

8 SEC. 102. Section 205 of the Federal Farm Loan Act,
9 as amended, is amended to read as follows:

10 "CAPITAL STOCK

11 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
12 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
13 intermediate credit bank is authorized to issue class A and
14 class B stock as follows:

15 "(1) Class A stock shall have a par value of \$100 per
16 share and shall be issued to and held by the Governor of
17 the Farm Credit Administration on behalf of the United
18 States. Stock of all Federal intermediate credit banks held
19 by the Secretary of the Treasury shall be transferred to the
20 Governor and may be reallocated by him in such manner as
21 he determines necessary to meet the needs of the respective
22 banks. The Governor shall then exchange such stock of each
23 bank for an equal par amount of class A stock of the bank.
24 Stock of each production credit corporation held by the
25 Governor (less the amount canceled pursuant to section 101

1 of the Farm Credit Act of 1956) shall be exchanged for
2 an equal par amount of class A stock of the Federal inter-
3 mediate credit bank in which such corporation is merged
4 pursuant to section 101 of such Act. No dividends shall be
5 paid on class A stock. Annually at the end of its fiscal year
6 each such bank shall, with the approval of the Farm Credit
7 Administration, determine the amount of its class A stock
8 which shall be retired. Whenever the total of the capital
9 stock, participation certificates, surplus, and reserves of the
10 bank is more than one-sixth of the highest month-end balance
11 of debentures and other obligations issued by or for the bank,
12 outstanding during the immediately preceding five years,
13 the minimum amount of class A stock to be retired shall be
14 the total amount of class B stock and participation certificates
15 issued for that year. All class A stock shall be retired at
16 par. The proceeds of such class A stock retirements of
17 each bank shall be paid into the Treasury as miscellaneous
18 receipts until there is so paid a sum equal to the amount of
19 class A stock of the bank issued in exchange for stock of
20 the production credit corporation. The proceeds of any
21 further such stock retirements shall be paid into the revolving
22 fund established by section 5 (e) of the Farm Credit Act
23 of 1933, as amended. The Governor of the Farm Credit
24 Administration is authorized to purchase from time to time
25 class A stock in any bank in such amount as he determines

1 is needed to meet the credit needs of the bank and such
2 revolving fund shall continue to be available for such pur-
3 chases as provided in said section 5 (e). The Governor
4 may at any time require the bank to retire such class A
5 stock if, in his judgment, the bank has resources available
6 therefor, and the proceeds of such retirements shall be re-
7 turned to such revolving fund.

8 “(2) Class B stock shall have a par value of \$5 per
9 share and may be issued only to production credit associa-
10 tions in series and amounts approved by the Farm Credit
11 Administration. Such stock shall be issued only at par and
12 may be transferred to another production credit association
13 with the approval of the issuing bank. Whenever a bank
14 has no class A stock outstanding it may pay like dividends
15 on class B stock and participation certificates in an amount
16 not to exceed 5 per centum in any year if declared by
17 the board of directors and approved by the Farm Credit
18 Administration. Dividends on class B stock and participa-
19 tion certificates shall not be cumulative. Within sixty days
20 after the effective date of the Farm Credit Act of 1956, the
21 production credit associations shall subscribe to class B stock
22 in the banks in an aggregate amount equal to 15 per centum
23 of the total amount of class A stock in all banks. Such re-
24 quired amount of subscriptions shall be allotted among the
25 several districts in the proportion that the average amount

1 of the bank's loans to and discounts for the production credit
2 associations of the district, outstanding during the imme-
3 diately preceding five fiscal years, is of the average of such
4 loans and discounts of all banks outstanding during such
5 five-year period. The amount so allotted to each district
6 shall be further allotted to each production credit association
7 on the basis of the proportion that its average indebtedness
8 (loans and discounts) to the bank during the immediately
9 preceding five fiscal years is of the average of such indebted-
10 ness of all production credit associations to the bank during
11 such five-year period. Each production credit association
12 shall subscribe to class B stock in the bank of the district in
13 the amount so allotted to it. One-third of the purchase price
14 of such stock subscription shall be paid at the time of such
15 subscription, one-third shall be paid within one year after the
16 effective date of said Act, and the balance shall be paid with-
17 in two years after such effective date. Such class B stock
18 shall be issued as payments therefor are made. Any pro-
19 duction credit association chartered after the effective date of
20 the Farm Credit Act of 1956 shall thereupon purchase class
21 B stock in the bank in the amount of \$5,000, and such
22 amount shall be adjusted at the end of five years thereafter
23 to an amount determined by applying to its average in-
24 debtedness to the bank during such five-year period the same
25 percentage as the percentage which the initial subscriptions

1 of other production credit associations was of their indebted-
2 ness, as provided in this subsection: *Provided*, That this
3 provision shall not apply to any association owning stock
4 in the bank in such required amount as a result of merger,
5 consolidation, or reorganization of one or more associations.
6 After all class A stock has been retired, the bank may retire
7 class B stock at par and participation certificates at face
8 amount under policies established by the Farm Credit Ad-
9 ministration. Class B stock and participation certificates
10 shall be retired without preference and in such manner that
11 the oldest outstanding stock or certificates at any given time
12 will be retired first. In case of liquidation or dissolution of
13 any production credit association or other financing institu-
14 tion, the stock or participation certificates of the bank owned
15 by such association or institution may, with the approval of
16 the Farm Credit Administration, be retired by the bank at
17 the fair book value thereof, not exceeding par or face
18 amount, as the case may be.

19 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
20 CATES.—Each Federal intermediate credit bank shall have a
21 first lien on all stock in the bank owned by each production
22 credit association and on all participation certificates owned
23 by other financing institutions as additional collateral for
24 any indebtedness of the holders thereof to the bank: *Pro-*
25 *vided*, That the bank shall make no loan or advance on the

1 security of its own stock or participation certificates. In any
 2 case where the debt of a production credit association or other
 3 financing institution is in default, the bank may, in accord-
 4 ance with regulations of the Farm Credit Administration,
 5 retire and cancel all or a part of the stock of the bank held
 6 by the association or of the participation certificates held by
 7 the other financing institution at the fair book value thereof,
 8 not exceeding par or face amount, as the case may be, in
 9 total or partial liquidation of the debt."

10 SEC. 103. Section 206 of the Federal Farm Loan Act, as
 11 amended, is hereby amended to read as follows:

12 "APPLICATION OF EARNINGS

13 "SEC. 206. (a) ANNUAL APPLICATION.—At the end
 14 of its fiscal year, each Federal intermediate credit bank shall
 15 determine the amount of its net earnings after paying or
 16 providing for all operating expenses (including reasonable
 17 valuation reserves and losses in excess of any such applicable
 18 reserves) and shall apply such net earnings as follows:
 19 (1) To the restoration of the amount of the impairment, if
 20 any, of capital stock and participation certificates, as de-
 21 termined by its board of directors; (2) to the restoration
 22 of the amount of the impairment, if any, of the surplus
 23 account established by this subsection, as determined by its
 24 board of directors; (3) 25 per centum of any remaining

1 earnings shall be used to create and maintain a reserve ac-
2 count equal to 25 per centum of the outstanding capital
3 stock and participation certificates of the bank; (4) if said
4 bank shall have outstanding capital stock held by the United
5 States during the whole or any part of its fiscal year, it shall
6 next pay to the United States as a franchise tax, a sum
7 equal to 25 per centum of its earnings then remaining, not
8 exceeding, however, a rate of return on such Government
9 capital calculated at a rate equal to the computed average
10 annual rate of interest on all public issues of public debt
11 obligations of the United States issued during the fiscal year
12 of the United States Treasury ending next before such tax
13 is due, as certified to the Farm Credit Administration by
14 the Secretary of the Treasury; (5) dividends on class B
15 stock and participation certificates may be declared as pro-
16 vided in section 205 (a) of this Act; and (6) any remain-
17 ing net earnings shall be distributed as patronage refunds as
18 provided in subsection (b) of this section. Notwithstanding
19 the provisions of item (3) of this subsection, if at the end
20 of any fiscal year the sum of the surplus and the reserve
21 account of any bank is less than its outstanding capital stock
22 and participation certificates, the bank shall continue to
23 apply such 25 per centum of its net earnings to the reserve
24 account until the sum of the surplus and the reserve account
25 is equal to its outstanding capital stock and participation

1 certificates. Each bank shall, on the effective date of the
2 Farm Credit Act of 1956, establish a surplus account con-
3 sisting of its earned surplus account, its reserve for con-
4 tingencies, and the surplus of the production credit corpora-
5 tion transferred to the bank. No part of such surplus of any
6 bank shall be distributed as patronage refunds. In the event
7 of a net loss in any fiscal year after providing for all operating
8 expenses (including reasonable valuation reserves and losses
9 in excess of any such applicable reserves), such loss shall be
10 absorbed by: First, charges to the reserve account; second,
11 charges to surplus other than that transferred from the pro-
12 duction credit corporation of the district; third, charges to
13 surplus transferred from the production credit corporation
14 of the district; fourth, the impairment of class B stock and
15 participation certificates; and fifth, the impairment of class A
16 stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end
18 of its fiscal year a Federal intermediate credit bank has
19 class A stock outstanding, patronage refunds declared for
20 that year shall be paid in class B stock to production credit
21 associations and in participation certificates to other financ-
22 ing institutions borrowing from or rediscounting with the
23 bank during the fiscal year for which such refunds are
24 declared. The recipients of such patronage refunds shall
25 not be subject to Federal income taxes thereon. Whenever

1 at the end of its fiscal year a Federal intermediate credit
2 bank has no class A stock outstanding, patronage refunds
3 declared for that year may be paid in such class B stock
4 and participation certificates or in cash as determined by
5 the bank. All patronage refunds shall be paid in the pro-
6 portion that the amount of interest earned by the bank
7 on its loans to and discounts for each production credit
8 association or other financing institution bears to the total
9 interest earned by the bank on all such loans and discounts
10 outstanding during the fiscal year. Each participation
11 certificate issued in payment of patronage refunds shall be
12 in multiples of \$5 and shall state on its face the
13 rights, privileges, and conditions applicable thereto. Pa-
14 tronage refunds shall not be paid to any other Federal
15 intermediate credit bank, or to any Federal land bank or
16 bank for cooperatives.

17 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
18 DISSOLUTION.—In the case of liquidation or dissolution of
19 any Federal intermediate credit bank, after the payment or
20 retirement, as the case may be, first, of all liabilities; second,
21 of all class A stock at par; third, of all class B stock at par
22 and all participation certificates at face amount; any surplus
23 established pursuant to subsection (a) of this section shall
24 be paid to the holders of class A and class B stock pro
25 rata, and any remaining assets shall be distributed to the

1 holders of class B stock and the holders of participation
2 certificates pro rata.”

3 SEC. 104. (a) Section 201 (b) of the Federal Farm
4 Loan Act, as amended, is hereby amended by adding at the
5 end thereof the following sentence: “The directors shall
6 have power, subject to the approval of the Farm Credit
7 Administration, to adopt such bylaws as may be necessary
8 for the conduct of the business of the banks.”

9 (b) Section 202 (a) of the Federal Farm Loan Act,
10 as amended, is hereby amended to read as follows:

11 “SEC. 202. (a) The Federal intermediate credit banks,
12 when chartered and established, shall have power, subject
13 solely to the restrictions, limitations, and conditions con-
14 tained in this section or as may be imposed by the Farm
15 Credit Administration not inconsistent with the provisions
16 of this Act—

17 “(1) to discount for, or purchase from, any produc-
18 tion credit association organized under the Farm Credit
19 Act of 1933, as amended, with its endorsement, any
20 note, draft, or other such obligation presented by such
21 association; and to make loans and advances to any
22 such association secured by such collateral as may be
23 approved by the Governor of the Farm Credit Admin-
24 istration;

1 “(2) to discount for, or purchase from, any
2 national bank, State bank, trust company, agricultural
3 credit corporation, incorporated livestock loan company,
4 savings institution, credit union, and any association of
5 agricultural producers engaged in the making of loans
6 to farmers and ranchers, with its endorsement, any note,
7 draft, or other such obligation the proceeds of which
8 have been advanced or used in the first instance for any
9 agricultural purpose, including the breeding, raising,
10 fattening, or marketing of livestock; and to make loans
11 and advances to any such financing institution secured
12 by such collateral as may be approved by the Governor
13 of the Farm Credit Administration: *Provided*, That no
14 such loan or advance shall be made upon the security
15 of collateral other than notes or other such obligations
16 of farmers and ranchers eligible for discount or purchase
17 under the provisions of this section, unless such loan
18 or advance is made to enable the financing institution to
19 make or carry loans for any agricultural purpose; and
20 “(3) to make loans to and discount paper for any
21 other Federal intermediate credit bank, any Federal
22 land bank, or any bank for cooperatives organized under
23 the Farm Credit Act of 1933, as amended, all upon
24 terms and at rates of interest or discount approved by
25 the Farm Credit Administration.”

1 (c) Section 202 (c) of the Federal Farm Loan Act,
2 as amended, is amended by changing the word "three" to
3 the word "seven".

4 (d) Section 204 (a) of the Federal Farm Loan Act,
5 as amended, is amended to read as follows:

6 "SEC. 204. (a) Loans and discounts by any Federal
7 intermediate credit bank shall bear such rates of interest
8 or discount as the board of directors of the bank shall from
9 time to time determine with the approval of the Farm Credit
10 Administration, but the rates charged financing institutions
11 other than production credit associations shall be the same
12 as those charged production credit associations."

13 (e) Section 204 (b) of the Federal Farm Loan Act
14 is hereby repealed.

15 (f) Section 13 of the Federal Farm Loan Act, as
16 amended, is hereby amended by inserting in paragraph
17 "Seventeenth", after the words "Federal land banks", a
18 comma and the words "to Federal intermediate credit banks,
19 or to banks for cooperatives organized under the Farm Credit
20 Act of 1933, as amended,".

21 SEC. 105. (a) Section 2 of the Farm Credit Act of
22 1933, as amended, is amended to read as follows:

23 "SEC. 2. The Governor of the Farm Credit Adminis-
24 tration, hereinafter in this Act referred to as the 'Governor',
25 is authorized and directed to organize and charter twelve

1 banks to be known as 'banks for cooperatives'. One such
2 bank shall be established in each city in which there is located
3 a Federal land bank. The members of the several farm
4 credit boards of the farm credit districts provided for in sec-
5 tion 5 of the Farm Credit Act of 1937, as amended; shall
6 be ex officio the directors of the respective banks for cooper-
7 atives. Such directors shall have power, subject to the ap-
8 proval of the Governor, to employ and fix the compensation
9 of such officers and employees of such banks as may be neces-
10 sary to carry out the powers and duties conferred upon such
11 banks under this Act."

12 (b) Section 3 of the Farm Credit Act of 1933 is
13 amended by striking from the first sentence the words "the
14 production credit corporations and" and by striking from
15 the second sentence the words "corporations and".

16 (c) Section 4 of the Farm Credit Act of 1933 is hereby
17 repealed.

18 (d) Section 5 of the Farm Credit Act of 1933, as
19 amended, is amended (1) by changing "\$120,000,000" in
20 subsection (a) thereof to "\$60,000,000"; (2) by striking
21 from subsection (b) thereof the words "the production credit
22 corporations and"; (3) by changing "\$40,000,000" in sub-
23 section (e) thereof to "\$100,000,000"; and (4) by striking
24 from subsection (e) thereof the words "and/or paid-in
25 surplus".

1 (e) Section 6 of the Farm Credit Act of 1933, as
2 amended, is amended to read as follows:

3 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
4 CREDIT ASSOCIATIONS

5 "SEC. 6. The Governor may purchase class A stock of
6 any production credit association in such amounts as he
7 determines are required to meet the credit needs of farmers
8 in the area served by such association. Payments for such
9 stock purchased by the Governor shall be made out of the
10 revolving fund authorized by section 5 (a) of this Act and
11 such stock shall be held by him on behalf of the United
12 States. The Governor may at any time require any produc-
13 tion credit association to retire and cancel any class A stock
14 held by him in such association if, in his judgment, the asso-
15 ciation has resources available therefor, and the proceeds of
16 such stock retirements shall be paid into such revolving
17 fund."

18 (f) Section 20 of the Farm Credit Act of 1933 is
19 amended by changing the fourth sentence to read as follows:

20 "Such articles shall be signed by the individuals uniting to
21 form the association and a copy thereof shall be furnished to
22 the Governor."

23 (g) Section 21 of the Farm Credit Act of 1933, as
24 amended, is amended (1) by striking from the first sentence
25 the words "production credit corporations" and substituting

1 in lieu thereof the words "the Governor"; and (2) by de-
2 leting the last sentence thereof.

3 (h) Section 22 of the Farm Credit Act of 1933, as
4 amended, is amended by striking the words "production
5 credit corporation", wherever they appear therein, and sub-
6 stituting in lieu thereof "Federal intermediate credit bank".

7 (i) Section 23 of the Farm Credit Act of 1933, as
8 amended, is amended (1) by changing the first sentence
9 to read as follows: "Each production credit association shall,
10 under such rules and regulations as may be prescribed by
11 the Farm Credit Administration, invest its funds and make
12 loans to farmers for general agricultural purposes and other
13 requirements of the borrowers"; (2) by deleting the second
14 sentence; (3) by striking from the third sentence the word
15 "corporation" and inserting in lieu thereof the words "Fed-
16 eral intermediate credit bank"; and (4) by changing the
17 period at the end of next to the last sentence to a colon and
18 adding the following: "*Provided*, That an association may,
19 under rules and regulations issued by the Farm Credit Ad-
20 ministration, make loans to any class B stockholder secured
21 by warehouse receipts covering agricultural commodities
22 stored in bonded warehouses without the purchase of addi-
23 tional class B stock."

24 (j) Section 34 of the Farm Credit Act of 1933, as
25 amended, is hereby amended by adding before the semi-

1 colon at the end of “(b)” the words “or to Federal land
2 banks or Federal intermediate credit banks”.

3 (k) Section 41 of the Farm Credit Act of 1933, as
4 amended, is hereby amended by adding before the semi-
5 colon at the end of “(b)” the words “or to Federal land
6 banks or Federal intermediate credit banks”.

7 (l) Section 60 of the Farm Credit Act of 1933, as
8 amended, is amended (1) by striking from the first sen-
9 tence the words “the production credit corporations,”; (2)
10 by striking from the second sentence the words “association,
11 or corporation” and substituting in lieu thereof the words
12 “or association”; and (3) by striking from the third sen-
13 tence the words “production credit corporation or”, “or cor-
14 poration”, and “corporation or”, wherever they appear
15 therein.

16 (m) Section 61 of the Farm Credit Act of 1933 is
17 amended (1) by striking from the first sentence the words
18 “production credit corporation,”; and (2) by striking from
19 the second and third sentences the words “association, or
20 corporation”, wherever they appear therein, and substituting
21 in lieu thereof the words “or association”.

22 (n) Section 62 of the Farm Credit Act of 1933, as
23 amended, is amended by striking the words “production
24 credit corporations,”.

1 (o) Section 63 of the Farm Credit Act of 1933, as
2 amended, is amended (1) by striking from the first
3 sentence the words "the production credit corporations,";
4 (2) by striking from the first and second sentences the
5 words "associations, or corporations" and "associations, and
6 corporations," and substituting in lieu thereof the words "or
7 associations" and "and associations," respectively; and (3)
8 by changing the last sentence to read as follows: "The
9 exemption provided herein shall not apply with respect to
10 any production credit association or its property or income
11 after the class A stock held in it by the Governor has been
12 retired, or with respect to any bank for cooperatives or its
13 property or income after the stock held in it by the United
14 States has been retired."

15 (p) Section 65 of the Farm Credit Act of 1933, as
16 amended, is amended (1) by striking the words "produc-
17 tion credit corporation,"; and (2) by striking the words
18 "association or corporation", wherever they appear therein,
19 and substituting in lieu thereof the words "or association".

20 (q) Section 86a of the Farm Credit Act of 1933 is
21 hereby repealed.

22 SEC. 106. (a) Section 5 of the Farm Credit Act of
23 1937, as amended, is amended (1) by striking from sub-
24 section (d) (2) (B) the words "production credit corpora-
25 tion of the district" and substituting in lieu thereof the words

1 “Governor of the Farm Credit Administration”; and (2) by
2 striking from subsection (h) the words “production credit
3 corporation,”.

4 (b) Section 6 of the Farm Credit Act of 1937 is
5 amended (1) by striking from the first sentence of sub-
6 section (a) the words “production credit corporation,”;
7 (2) by striking from the third sentence of subsection (a)
8 the word “three”; (3) by striking from the first sentence
9 of subsection (b) the words “the bank for cooperatives,
10 and the production credit corporation” and substituting in
11 lieu thereof the words “and the bank for cooperatives”; and
12 (4) by striking from the last sentence of subsection (b)
13 the words “production credit corporation,”.

14 SEC. 107. (a) Section 8 of the Farm Credit Act of
15 1953 is amended by striking the words “production credit
16 corporation”, wherever they appear therein, and substituting
17 in lieu thereof the words “Federal intermediate credit bank”.

18 (b) Subsection (a) of section 16 of the Farm Credit
19 Act of 1953 is amended to read as follows:

20 “(a) Any other provisions of law to the contrary not-
21 withstanding, after the effective date of this Act any pro-
22 duction credit association may, with the approval of the
23 Farm Credit Administration, issue nonvoting preferred
24 stock, to be known as class C stock, which may be pur-
25 chased and held by the Governor of the Farm Credit Ad-

1 ministration and by investors: *Provided*, That the issuance
 2 of such stock shall be authorized by vote of not less than
 3 two-thirds of the outstanding shares of class A stock of the
 4 association (other than shares held by the Governor of the
 5 Farm Credit Administration) by the holders thereof in
 6 person or by proxy and by vote of not less than two-thirds
 7 of the outstanding shares of class B stock of the associa-
 8 tion by the holders thereof in person or by proxy; and for
 9 this purpose holders of class A stock (other than the Gov-
 10 ernor of the Farm Credit Administration) and holders of
 11 class B stock shall be entitled to one vote for each share of
 12 stock held by them. Payments for such stock purchased by
 13 the Governor shall be made out of the revolving fund created
 14 by section 5 (a) of the Farm Credit Act of 1933, as
 15 amended, and the proceeds from the retirement of any such
 16 stock shall be paid into such revolving fund."

17 SEC. 108. Section 601 of the Department of Agricul-
 18 ture Organic Act of 1944, as amended, is hereby amended
 19 (1) by striking from subsection (a) the words "production
 20 credit corporations," wherever they appear therein, and the
 21 word "corporations,"; (2) by striking from subsection (b)
 22 the words "the Federal intermediate credit banks, and the
 23 production credit corporations" and substituting in lieu
 24 thereof the words "and the Federal intermediate credit
 25 banks"; and (3) by striking from subsections (b) and (c)

1 the words "and corporation", "and corporations", and "cor-
2 poration," wherever they appear therein.

3 SEC. 109. Sections 658 and 1014 of title 18, United
4 States Code, are hereby amended by striking from each such
5 section the words "or in which a production credit corpora-
6 tion holds stock".

7 TITLE II—MISCELLANEOUS PROVISIONS

8 SEC. 201. (a) The Government Corporation Control
9 Act, as amended, is amended (1) by striking from section
10 101 the words "Federal Intermediate Credit Banks; Pro-
11 duction Credit Corporations;"; (2) by inserting in section
12 201 immediately following "(3)" the words "Federal In-
13 termediate Credit Banks, "(4)"; (3) by changing "(4)"
14 in section 201 to "(5)"; and (4) by striking from sections
15 302 and 303 the words "production credit corporations,".

16 (b) After the effective date of this Act, the Federal in-
17 termediate credit banks may utilize their funds for adminis-
18 trative expenses without regard to the limitations contained
19 in any other Act of Congress governing the expenditure of
20 appropriated funds.

21 (c) Paragraph Seventh of section 5136 of the Revised
22 Statutes as amended, is amended (1) by inserting in next
23 to the last sentence immediately before the words "Federal
24 Home Loan Banks", the words "thirteen banks for coopera-
25 tives or any of them or the"; and (2) by changing the last

1 sentence to read as follows: "The limitations and restric-
2 tions herein contained as to dealing in and underwriting
3 investment securities shall not apply to obligations issued
4 by the International Bank for Reconstruction and Develop-
5 ment which are at the time eligible for purchase by a national
6 bank for its own account: *Provided*, That no association shall
7 hold obligations issued by said bank as a result of under-
8 writing, dealing, or purchasing for its own account (and
9 for this purpose obligations as to which it is under commit-
10 ment shall be deemed to be held by it) in a total amount
11 exceeding at any one time 10 per centum of its capital stock
12 actually paid in and unimpaired and 10 per centum of its
13 unimpaired surplus fund."

14 SEC. 202. (a) This Act shall become effective on
15 January 1 next following its enactment.

16 (b) For purposes of applying the amendment in sec-
17 tion 103 of this Act, that part of the fiscal year 1957
18 preceding the effective date of this Act shall be deemed to
19 be a separate fiscal year.

20 SEC. 203. (a) If any provision of this Act, or the ap-
21 plication thereof to any person or circumstance, is held
22 invalid, the remainder of the Act, and the application of
23 such provisions to other persons or circumstances, shall not
24 be affected thereby.

- 1 (b) The right to alter, amend, or repeal this Act is
- 2 hereby expressly reserved.

1. The first part of the paper is devoted to the study of the

properties of the function $f(x)$ defined by

$$f(x) = \sum_{n=0}^{\infty} \frac{a_n}{n!} x^n$$

where a_n are the coefficients of the power series.

The second part of the paper is devoted to the study of the

properties of the function $f(x)$ defined by

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where a_n are the coefficients of the power series.

The fifth part of the paper is devoted to the study of the

properties of the function $f(x)$ defined by

$$f(x) = \sum_{n=0}^{\infty} \frac{a_n}{n!} x^n$$

where a_n are the coefficients of the power series.

The sixth part of the paper is devoted to the study of the

properties of the function $f(x)$ defined by

$$f(x) = \sum_{n=0}^{\infty} \frac{a_n}{n!} x^n$$

where a_n are the coefficients of the power series.

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. BLENDER

MARCH 28 (legislative day, MARCH 26), 1956

Read twice and referred to the Committee on
Agriculture and Forestry

84TH CONGRESS
2D SESSION

S. 3550

IN THE SENATE OF THE UNITED STATES

MARCH 28 (legislative day, MARCH 26), 1956

MR. ELLENDER (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATION OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculture with a sound, dependable
8 source of credit; to combine into a single entity certain farm

1 credit institutions in order to increase the efficiency of
2 operation and facilitate the retirement of Government cap-
3 ital; to encourage and promote the continued growth and
4 development of the production credit associations as self-
5 supporting cooperative lending institutions operating on a
6 sound credit basis with maximum local authority to de-
7 termine credit needs and loan policies consistent with the
8 maintenance of a national production credit system; and
9 to continue to provide other financing institutions making
10 loans to farmers and ranchers with the right to borrow from
11 and rediscount with the combined entity on a basis com-
12 parable with the production credit associations.

13 TITLE I—PRODUCTION CREDIT SYSTEM

14 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
15 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS.—(a)
16 TRANSFER OF ASSETS.—The production credit corporation
17 in each farm credit district is hereby merged in the Federal
18 intermediate credit bank of the district and all assets, funds,
19 contracts, property, and records belonging to such corpora-
20 tion, except stock in production credit associations, are hereby
21 transferred to and vested in such bank. All obligations and
22 liabilities of the production credit corporation shall be
23 assumed by the Federal intermediate credit bank of the
24 district. Stock held by each production credit corporation
25 in production credit associations is transferred to the Gov-

ernor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days

1 prior to the effective date of this Act, take all necessary
2 action to reemploy as of such effective date such of the officers
3 and employees so terminated in such capacities as the board
4 determines they are qualified and needed to carry out the
5 functions, powers, and duties of the Federal intermediate
6 credit bank. Such reemployment shall be subject to the
7 approval of the Farm Credit Administration.

8 SEC. 102. Section 205 of the Federal Farm Loan Act,
9 as amended, is amended to read as follows:

10 "CAPITAL STOCK

11 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
12 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
13 intermediate credit bank is authorized to issue class A and
14 class B stock as follows:

15 "(1) Class A stock shall have a par value of \$100 per
16 share and shall be issued to and held by the Governor of
17 the Farm Credit Administration on behalf of the United
18 States. Stock of all Federal intermediate credit banks held
19 by the Secretary of the Treasury shall be transferred to
20 the Governor and may be reallocated by him in such manner
21 as he determines necessary to meet the needs of the respective
22 banks. The Governor shall then exchange such stock of
23 each bank for an equal par amount of class A stock of the
24 bank. Stock of each production credit corporation held by
25 the Governor (less the amount canceled pursuant to

1 section 101 of the Farm Credit Act of 1956) shall be ex-
2 changed for an equal par amount of class A stock of the
3 Federal intermediate credit bank in which such corporation
4 is merged pursuant to section 101 of such Act. No dividends
5 shall be paid on class A stock. Annually at the end of its
6 fiscal year each such bank shall, with the approval of the
7 Farm Credit Administration, determine the amount of its
8 class A stock which shall be retired. Whenever the total
9 of the capital stock, participation certificates, surplus, and
10 reserves of the bank is more than one-sixth of the highest
11 month-end balance of debentures and other obligations issued
12 by or for the bank, outstanding during the immediately pre-
13 ceding five years, the minimum amount of class A stock
14 to be retired shall be the total amount of class B stock and
15 participation certificates issued for that year. All class A
16 stock shall be retired at par. The proceeds of such class A
17 stock retirements of each bank shall be paid into the Treasury
18 as miscellaneous receipts until there is so paid a sum equal
19 to \$30,000,000 plus the amount of class A stock of the bank
20 issued in exchange for stock of the production credit corpo-
21 ration. The proceeds of any further such stock retirements
22 shall be paid into the revolving fund established by section
23 5 (e) of the Farm Credit Act of 1933, as amended. The
24 Governor of the Farm Credit Administration is authorized
25 to purchase, from time to time, class A stock in any bank

1 in such amount as he determines is needed to meet the credit
2 needs of the bank, and such revolving fund shall continue
3 to be available for such purchases as provided in said section
4 5 (e). The Governor may at any time require the bank to
5 retire such class A stock if, in his judgment, the bank has
6 resources available therefor, and the proceeds of such retire-
7 ments shall be returned to such revolving fund.

8 “(2) Class B stock shall have a par value of \$5 per
9 share and may be issued only to production credit asso-
10 ciations in series and amount approved by the Farm
11 Credit Administration. Such stock shall be issued only
12 at par and may be transferred to another production
13 credit association with the approval of the issuing bank.
14 Whenever a bank has no class A stock outstanding it may
15 pay like dividends on class B stock and participation certifi-
16 cates in an amount not to exceed 5 per centum in any year
17 if declared by the board of directors and approved by the
18 Farm Credit Administration. Dividends on class B stock
19 and participation certificates shall not be cumulative. With-
20 in sixty days after the effective date of the Farm Credit Act
21 of 1956, the production credit associations shall subscribe to
22 class B stock in the banks in an aggregate amount equal to
23 15 per centum of the total amount of class A stock in all
24 banks. Such required amount of subscriptions shall be
25 allotted among the several districts in the proportion that the

1 average amount of the bank's loans to and discounts for the
2 production credit associations of the district, outstanding dur-
3 ing the immediately preceding five fiscal years, is of the
4 average of such loans and discounts of all banks outstanding
5 during such five-year period. The amount so allotted to
6 each district shall be further allotted to each production credit
7 association on the basis of the proportion that its average in-
8 debtedness (loans and discounts) to the bank during the im-
9 mediately preceding five fiscal years is of the average of such
10 indebtedness of all production credit associations to the bank
11 during such five-year period. Each production credit associa-
12 tion shall subscribe to class B stock in the bank of the district
13 in the amount so allotted to it. One-third of the purchase
14 price of such stock subscription shall be paid at the time of
15 such subscription, one-third shall be paid within one year
16 after the effective date of said Act, and the balance shall be
17 paid within two years after such effective date. Such class
18 B stock shall be issued as payments therefor are made. Any
19 production credit association chartered after the effective
20 date of the Farm Credit Act of 1956 shall thereupon pur-
21 chase class B stock in the bank in the amount of \$5,000, and
22 such amount shall be adjusted at the end of five years there-
23 after to an amount determined by applying to its average
24 indebtedness to the bank during such five-year period the
25 same percentage as the percentage which the initial sub-

1 scriptions of other production credit associations was of their
2 indebtedness, as provided in this subsection: *Provided*, That
3 this provision shall not apply to any association owing stock
4 in the bank in such required amount as a result of merger,
5 consolidation, or reorganization of one or more associations.
6 After all class A stock has been retired, the bank may retire
7 class B stock at par and participation certificates at face
8 amount under policies established by the Farm Credit Ad-
9 ministration. Class B stock and participation certificates
10 shall be retired without preference and in such manner that
11 the oldest outstanding stock or certificates at any given time
12 will be retired first. In case of liquidation or dissolution of
13 any production credit association or other financing institu-
14 tion, the stock or participation certificates of the bank owned
15 by such association or institution may, with the approval of
16 the Farm Credit Administration, be retired by the bank at
17 the fair book value thereof, not exceeding par or face
18 amount, as the case may be.

19 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
20 CATES.—Each Federal intermediate credit bank shall have a
21 first lien on all stock in the bank owned by each production
22 credit association and on all participation certificates owned
23 by other financing institutions as additional collateral for any
24 indebtedness of the holders thereof to the bank: *Provided*,
25 That the bank shall make no loan or advance on the security .

1 of its own stock or participation certificates. In any case
2 where the debt of a production credit association or other
3 financing institution is in default, the bank may, in accord-
4 ance with regulations of the Farm Credit Administration,
5 retire and cancel all or a part of the stock of the bank held
6 by the association or of the participation certificates held by
7 the other financing institution at the fair book value thereof,
8 not exceeding par or face amount, as the case may be, in total
9 or partial liquidation of the debt."

10 SEC. 103. Section 206 of the Federal Farm Loan Act,
11 as amended, is hereby amended to read as follows:

12 "APPLICATION OF EARNINGS

13 "SEC. 206. (a) ANNUAL APPLICATION.—At the end
14 of its fiscal year, each Federal intermediate credit bank shall
15 determine the amount of its net earnings after paying or
16 providing for all operating expenses (including reasonable
17 valuation reserves and losses in excess of any such applicable
18 reserves) and shall apply such net earnings as follows:
19 (1) to the restoration of the amount of the impairment, if
20 any, of capital stock and participation certificates, as deter-
21 mined by its board of directors; (2) to the restoration of
22 the amount of the impairment, if any, of the surplus account
23 established by this subsection, as determined by its board
24 of directors; (3) 25 per centum of any remaining earnings

1 shall be used to create and maintain a reserve account equal
2 to 25 per centum of the outstanding capital stock and par-
3 ticipation certificates of the bank; (4) if said bank shall
4 have outstanding capital stock held by the United States
5 during the whole or any part of its fiscal year, it shall next
6 pay to the United States as a franchise tax, a sum equal to
7 25 per centum of its earnings then remaining, not exceeding,
8 however, a rate of return on such Government capital cal-
9 culated at a rate equal to the computed average annual rate
10 of interest on all public issues of public debt obligations
11 of the United States issued during the fiscal year of the
12 United States Treasury ending next before such tax is
13 due, as certified to the Farm Credit Administration by the
14 Secretary of the Treasury; (5) dividends on class B stock
15 and participation certificates may be declared as provided
16 in section 205 (a) of this Act; and (6) any remaining
17 net earnings shall be distributed as patronage refunds as
18 provided in subsection (b) of this section. Notwithstand-
19 ing the provisions of item (3) of this subsection, if at the
20 end of any fiscal year the sum of the surplus and the reserve
21 account of any bank is less than its outstanding capital stock
22 and participation certificates, the bank shall continue to
23 apply such 25 per centum of its net earnings to the reserve
24 account until the sum of the surplus and the reserve account
25 is equal to its outstanding capital stock and participation

1 certificates. Each bank shall, on the effective date of the
2 Farm Credit Act of 1956, establish a surplus account
3 consisting of its earned surplus account, its reserve for
4 contingencies, and the surplus of the production credit cor-
5 poration transferred to the bank. No part of such surplus
6 of any bank shall be distributed as patronage refunds. In
7 the event of a net loss in any fiscal year after providing for
8 all operating expenses (including reasonable valuation
9 reserves and losses in excess of any such applicable re-
10 serves), such loss shall be absorbed by: first, charges to
11 the reserve account; second, charges to surplus other than
12 that transferred from the production credit corporation of
13 the district; third, charges to surplus transferred from the
14 production credit corporation of the district; fourth, the
15 impairment of class B stock and participation certificates;
16 and fifth, the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end
18 of its fiscal year a Federal intermediate credit bank has class
19 A stock outstanding, patronage refunds declared for that
20 year shall be paid in class B stock to production credit
21 associations and in participation certificates to other financing
22 institutions borrowing from or rediscounting with the bank
23 during the fiscal year for which such refunds are declared.
24 The recipients of such patronage refunds shall not be subject
25 to Federal income taxes thereon. Whenever at the end

1 of its fiscal year a Federal intermediate credit bank has no
2 class A stock outstanding, patronage refunds declared for
3 that year may be paid in such class B stock and participation
4 certificates or in cash as determined by the bank. All pat-
5 ronage refunds shall be paid in the proportion that the
6 amount of interest earned by the bank on its loans to and
7 discounts for each production credit association or other
8 financing institution bears to the total interest earned by the
9 bank on all such loans and discounts outstanding during the
10 fiscal year. Each participation certificate issued in payment
11 of patronage refunds shall be in multiples of \$5 and shall
12 state on it face the rights, privileges, and conditions ap-
13 plicable thereto. Patronage refunds shall not be paid to any
14 other Federal intermediate credit bank, or to any Federal
15 land bank or bank for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after the payment or
19 retirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any surplus
22 established pursuant to subsection (a) of this section shall
23 be paid into the Treasury as miscellaneous receipts, and any
24 remaining assets shall be distributed to the holders of class
25 B stock and the holders of participation certificates pro rata.”

1 SEC. 104. (a) Section 201 (b) of the Federal Farm
2 Loan Act, as amended, is hereby amended by adding at the
3 end thereof the following sentence: "The directors shall
4 have power, subject to the approval of the Farm Credit
5 Administration, to adopt such bylaws as may be necessary
6 for the conduct of the business of the banks."

7 (b) Section 202 (a) of the Federal Farm Loan Act,
8 as amended, is hereby amended to read as follows:

9 "SEC. 202. (a) The Federal intermediate credit banks,
10 when chartered and established, shall have power, sub-
11 ject solely to the restrictions, limitations, and conditions
12 contained in this section or as may be imposed by the Farm
13 Credit Administration not inconsistent with the provisions
14 of this Act—

15 “(1) to discount for, or purchase from, any produc-
16 tion credit association organized under the Farm Credit
17 Act of 1933, as amended, with its endorsement, any note,
18 draft, or other such obligation presented by such associa-
19 tion; and to make loans and advances to any such asso-
20 ciation secured by such collateral as may be approved
21 by the Governor of the Farm Credit Administration;

22 “(2) to discount for, or purchase from, any national
23 bank, State bank, trust company, agricultural credit
24 corporation, incorporated livestock loan company, sav-
25 ings institution, credit union, and any association of

1 agricultural producers engaged in the making of loans
2 to farmers and ranchers, with its endorsement, any note,
3 draft, or other such obligation the proceeds of which have
4 been advanced or used in the first instance for any agri-
5 cultural purpose, including the breeding, raising, fatten-
6 ing, or marketing of livestock; and to make loans and
7 advances to any such financing institution secured by
8 such collateral as may be approved by the Governor of
9 the Farm Credit Administration: *Provided*, That no
10 such loan or advance shall be made upon the security of
11 collateral other than notes or other such obligations of
12 farmers and ranchers eligible for discount or purchase
13 under the provisions of this section, unless such loan or
14 advance is made to enable the financing institution to
15 make or carry loans for any agricultural purpose; and
16 “(3) to make loans to and discount paper for any
17 other Federal intermediate credit bank, any Federal
18 land bank, or any bank for cooperatives organized under
19 the Farm Credit Act of 1933, as amended, all upon
20 terms and at rates of interest or discount approved by
21 the Farm Credit Administration.”

22 (c) Section 202 (c) of the Federal Farm Loan Act, as
23 amended, is amended by changing the word “three” to
24 the word “seven”.

1 (d) Section 204 (a) of the Federal Farm Loan Act, as
2 amended, is amended to read as follows:

3 "SEC. 204. (a) Loans and discounts by any Federal
4 intermediate credit bank shall bear such rates of interest or
5 discount as the board of directors of the bank shall from
6 time to time determine with the approval of the Farm Credit
7 Administration, but the rates charged financing institutions
8 other than production credit associations shall be the same as
9 those charged production credit associations."

10 (e) Section 204 (b) of the Federal Farm Loan Act
11 is hereby repealed.

12 (f) Section 13 of the Federal Farm Loan Act, as
13 amended, is hereby amended by inserting in paragraph
14 "Seventeenth", after the words "Federal land banks", a
15 comma and the words "to Federal intermediate credit banks,
16 or to banks for cooperatives organized under the Farm
17 Credit Act of 1933, as amended,".

18 SEC. 105. (a) Section 2 of the Farm Credit Act of
19 1933, as amended, is amended to read as follows:

20 "SEC. 2. The Governor of the Farm Credit Administra-
21 tion, hereinafter in this Act referred to as the 'Governor',
22 is authorized and directed to organize and charter twelve
23 banks to be known as 'banks for cooperatives'. One such
24 bank shall be established in each city in which there is
25 located a Federal land bank. The members of the several

1 farm credit boards of the farm credit districts provided for
2 in section 5 of the Farm Credit Act of 1937, as amended,
3 shall be ex officio the directors of the respective banks for
4 cooperatives. Such directors shall have power, subject to
5 the approval of the Governor, to employ and fix the com-
6 pensation of such officers and employees of such banks as
7 may be necessary to carry out the powers and duties con-
8 ferred upon such banks under this Act.”

9 (b) Section 3 of the Farm Credit Act of 1933 is
10 amended by striking from the first sentence the words “the
11 production credit corporations and” and by striking from
12 the second sentence the words “corporations and”.

13 (c) Section 4 of the Farm Credit Act of 1933 is hereby
14 repealed.

15 (d) Section 5 of the Farm Credit Act of 1933, as
16 amended, is amended (1) by changing “\$120,000,000” in
17 subsection (a) thereof to “\$60,000,000”; (2) by striking
18 from subsection (b) thereof the words “the production
19 credit corporations and”; (3) by changing “\$40,000,000”
20 in subsection (e) thereof to “\$70,000,000”; and (4) by
21 striking from subsection (e) thereof the words “and/or
22 paid-in surplus”.

23 (e) Section 6 of the Farm Credit Act of 1933, as
24 amended, is amended to read as follows:

1 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
2 CREDIT ASSOCIATIONS

3 "SEC. 6. The Governor may purchase class A stock of
4 any production credit association in such amounts as he
5 determines are required to meet the credit needs of farmers
6 in the area served by such association. Payments for such
7 stock purchased by the Governor shall be made out of the
8 revolving fund authorized by section 5 (a) of this Act
9 and such stock shall be held by him on behalf of the United
10 States. The Governor may at any time require any pro-
11 duction credit association to retire and cancel any class A
12 stock held by him in such association if, in his judgment,
13 the association has resources available therefor, and the
14 proceeds of such stock retirements shall be paid into such
15 revolving fund."

16 (f) Section 20 of the Farm Credit Act of 1933 is
17 amended by changing the fourth sentence to read as fol-
18 lows: "Such articles shall be signed by the individuals
19 uniting to form the association and a copy thereof shall be
20 furnished to the Governor."

21 (g) Section 21 of the Farm Credit Act of 1933, as
22 amended, is amended (1) by striking from the first sentence
23 the words "production credit corporations" and substituting
24 in lieu thereof the words "the Governor"; and (2) by
25 deleting the last sentence thereof.

1 (h) Section 22 of the Farm Credit Act of 1933, as
2 amended, is amended by striking out the words "production
3 credit corporation" wherever they appear therein, and sub-
4 stituting in lieu thereof "Federal intermediate credit bank".

5 (i) Section 23 of the Farm Credit Act of 1933, as
6 amended, is amended (1) by changing the first sentence
7 to read as follows: "Each production credit association shall,
8 under such rules and regulations as may be prescribed by
9 the Farm Credit Administration, invest its funds and make
10 loans to farmers for general agricultural purposes and other
11 requirements of the borrowers"; (2) by deleting the second
12 sentence; (3) by striking from the third sentence the word
13 "corporation" and inserting in lieu thereof the words "Fed-
14 eral intermediate credit bank"; and (4) by changing the
15 period at the end of next to the last sentence to a colon
16 and adding the following: "*Provided*, That an association
17 may, under rules and regulations issued by the Farm Credit
18 Administration, make loans to any class B stockholder se-
19 cured by warehouse receipts covering agricultural commod-
20 ities stored in bonded warehouses without the purchase of
21 additional class B stock."

22 (j) Section 34 of the Farm Credit Act of 1933, as
23 amended, is hereby amended by adding before the semicolon
24 at the end of "(b)" the words "or to Federal land banks
25 or Federal intermediate credit banks".

1 (k) Section 41 of the Farm Credit Act of 1933, as
2 amended, is hereby amended by adding before the semicolon
3 at the end of “(b)” the words “or to Federal land banks or
4 Federal intermediate credit banks”.

5 (l) Section 60 of the Farm Credit Act of 1933, as
6 amended, is amended (1) by striking from the first sentence
7 the words “the production credit corporations,”; (2) by
8 striking from the second sentence the words “association, or
9 corporation” and substituting in lieu thereof the words “or
10 association”; and (3) by striking from the third sentence
11 the words “production credit corporation or”, “or corpora-
12 tion”, and “corporation or”, wherever they appear therein.

13 (m) Section 61 of the Farm Credit Act of 1933 is
14 amended (1) by striking from the first sentence the words
15 “production credit corporation,”; and (2) by striking from
16 the second and third sentences the words “association, or
17 corporation”, wherever they appear therein, and substituting
18 in lieu thereof the words “or association”.

19 (n) Section 62 of the Farm Credit Act of 1933, as
20 amended, is amended by striking out the words “production
21 credit corporations,”.

22 (o) Section 63 of the Farm Credit Act of 1933, as
23 amended, is amended (1) by striking from the first sentence
24 the words “the production credit corporations,”; (2) by
25 striking from the first and second sentences the words

1 “associations, or corporations” and “associations, and cor-
2 porations,” and substituting in lieu thereof, the words “or
3 associations” and “and associations,” respectively; and (3)
4 by changing the last sentence to read as follows: “The
5 exemption provided herein shall not apply with respect to
6 any production credit association or its property or income
7 after the class A stock held in it by the Governor has been
8 retired, or with respect to any bank for cooperatives or its
9 property or income after the stock held in it by the United
10 States has been retired.”

11 (p) Section 65 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by striking out the words “pro-
13 duction credit corporation,”; and (2) by striking out the
14 words “association or corporation”, wherever they appear
15 therein, and substituting in lieu thereof the words “or asso-
16 ciation”.

17 (q) Section 86a of the Farm Credit Act of 1933 is
18 hereby repealed.

19 SEC. 106. (a) Section 5 of the Farm Credit Act of
20 1937, as amended, is amended (1) by striking from sub-
21 section (d) (2) (B) the words “production credit cor-
22 poration of the district” and substituting in lieu thereof the
23 words “Governor of the Farm Credit Administration”;
24 and (2) by striking from subsection (h) the words “pro-
25 duction credit corporation,”.

1 (b) Section 6 of the Farm Credit Act of 1937 is
2 amended (1) by striking from the first sentence of subsec-
3 tion (a) the words "production credit corporation,"; (2)
4 by striking from the third sentence of subsection (a) the
5 word "three"; (3) by striking from the first sentence of
6 subsection (b) the words "the bank for cooperatives, and
7 the production credit corporation" and substituting in lieu
8 thereof the words "and the bank for cooperatives"; and
9 (4) by striking from the last sentence of subsection (b)
10 the words "production credit corporation,".

11 SEC. 107. (a) Section 8 of the Farm Credit Act of
12 1953 is amended by striking out the words "production
13 credit corporation", wherever they appear therein, and
14 substituting in lieu thereof the words "Federal intermediate
15 credit bank".

16 (b) Subsection (a) of section 16 of the Farm Credit
17 Act of 1953 is amended to read as follows:

18 “(a) Any other provisions of law to the contrary
19 notwithstanding, after the effective date of this Act any
20 production credit association may, with the approval of the
21 Farm Credit Administration, issue nonvoting preferred
22 stock, to be known as class C stock, which may be pur-
23 chased and held by the Governor of the Farm Credit Admin-
24 istration and by investors: *Provided*, That the issuance of
25 such stock shall be authorized by vote of not less than two-

1 thirds of the outstanding shares of class A stock of the
2 association (other than shares held by the Governor of the
3 Farm Credit Administration) by the holders thereof in
4 person or by proxy and by vote of not less than two-thirds
5 of the outstanding shares of class B stock of the association
6 by the holders thereof in person or by proxy; and for this
7 purpose holders of class A stock (other than the Governor
8 of the Farm Credit Administration) and holders of class B
9 stock shall be entitled to one vote for each share of stock
10 held by them. Payments for such stock purchased by the
11 Governor shall be made out of the revolving fund created
12 by section 5 (a) of the Farm Credit Act of 1933, as
13 amended, and the proceeds from the retirement of any such
14 stock shall be paid into such revolving fund."

15 SEC. 108. Section 601 of the Department of Agriculture
16 Organic Act of 1944, as amended, is hereby amended (1)
17 by striking from subsection (a) the words "production credit
18 corporations," wherever they appear therein, and the word
19 "corporations,"; (2) by striking from subsection (b) the
20 words "the Federal intermediate credit banks, and the pro-
21 duction credit corporations" and substituting in lieu thereof
22 the words "and the Federal intermediate credit banks"; and
23 (3) by striking from subsections (b) and (c) the words
24 "and corporation", "and corporations", and "corporation,"
25 wherever they appear therein.

1 SEC. 109. Sections 658 and 1014 of title 18, United
2 States Code, are hereby amended by striking from each such
3 section the words "or in which a production credit corpora-
4 tion holds stock".

5 TITLE II—MISCELLANEOUS PROVISIONS

6 SEC. 201. (a) The Government Corporation Control
7 Act, as amended, is amended by striking from section 101
8 the words "Production Credit Corporations;" and from
9 sections 302 and 303 the words "Production Credit
10 Corporations,".

11 (b) Paragraph Seventh of section 5136 of the Revised
12 Statutes as amended, is amended (1) by inserting in next
13 to the last sentence immediately before the words "Federal
14 Home Loan Banks", the words "thirteen banks for co-
15 operatives or any of them or the"; and (2) by changing
16 the last sentence to read as follows: "The limitations and
17 restrictions herein contained as to dealing in and under-
18 writing investment securities shall not apply to obligations
19 issued by the International Bank for Reconstruction and
20 Development which are at the time eligible for purchase by
21 a national bank for its own account: *Provided*, That no as-
22 sociation shall hold obligations issued by said bank as a
23 result of underwriting, dealing, or purchasing for its own
24 account (and for this purpose obligations as to which it is
25 under commitment shall be deemed to be held by it) in a

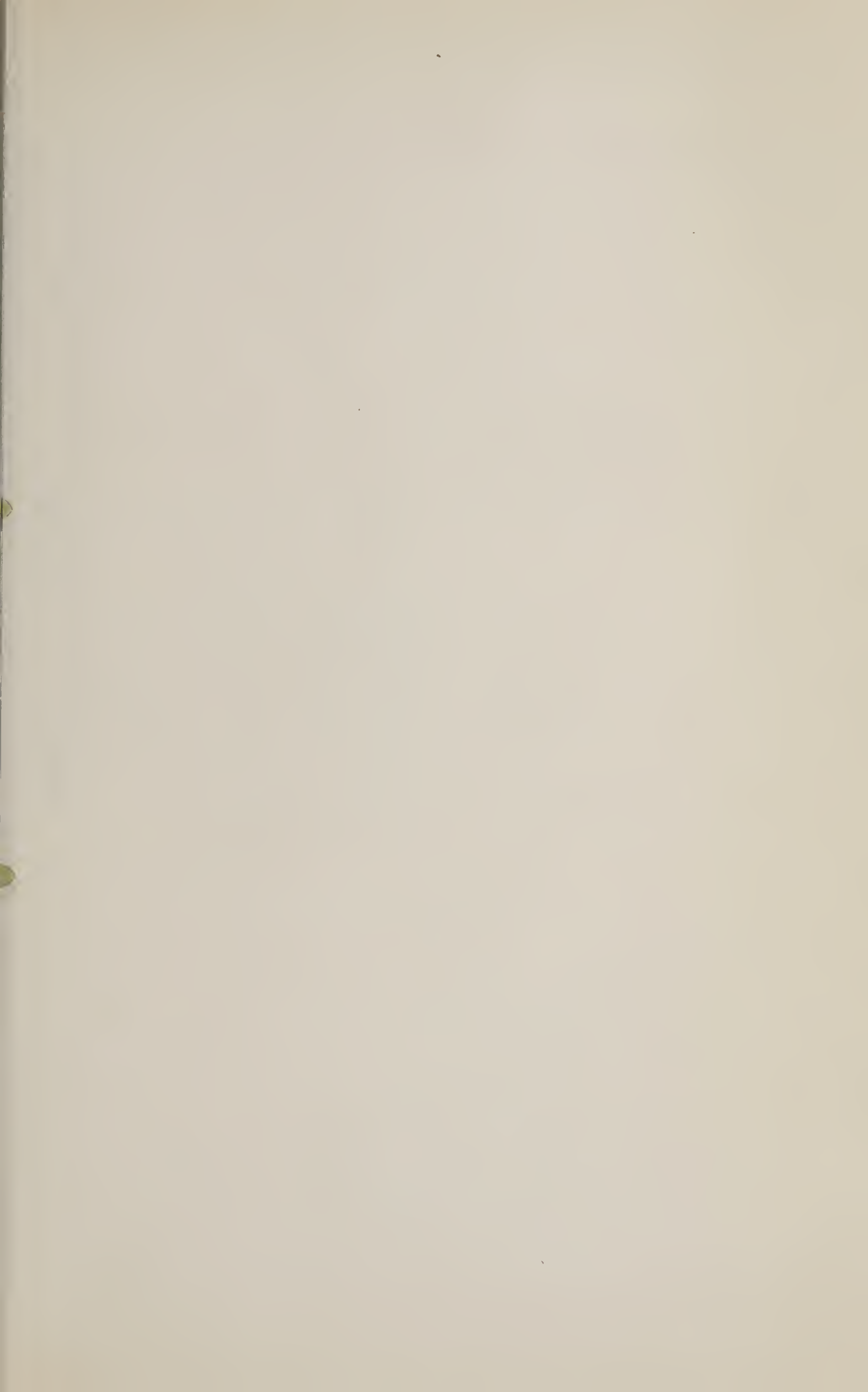
1 total amount exceeding at any one time 10 per centum of
2 its capital stock actually paid in and unimpaired and 10 per
3 centum of its unimpaired surplus fund.”

4 SEC. 202. (a) This Act shall become effective on Janu-
5 ary 1 next following its enactment.

6 (b) For purposes of applying the amendment in section
7 103 of this Act, that part of the fiscal year 1957 preceding
8 the effective date of this Act shall be deemed to be a separate
9 fiscal year.

10 SEC. 203. (a) If any provision of this Act, or the ap-
11 plication thereof to any person or circumstance, is held in-
12 valid, the remainder of the Act, and the application of such
13 provisions to other persons or circumstances, shall not be
14 affected thereby.

15 (b) The right to alter, amend, or repeal this Act is
16 hereby expressly reserved.



A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. ELLENDER

MARCH 28 (legislative day, MARCH 26), 1956

Read twice and referred to the Committee on
Agriculture and Forestry

84TH CONGRESS
2D SESSION

S. 3564

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, MARCH 26), 1956

Mr. HOLLAND introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATON OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculturre with a sound, dependable,
8 and effective source of credit; to promote the efficiency of

1 the farm credit system by merging production credit cor-
2 porations in Federal intermediate credit banks and to facili-
3 tate farmer ownership of the merged banks and retirement
4 of Government capital therein; to encourage and promote
5 the continued growth and development of the production
6 credit associations as self-supporting cooperative lending in-
7 stitutions operating on a sound credit basis with maximum
8 local authority to determine credit needs and loan policies
9 consistent with the maintenance of a national production
10 credit system; and to continue to provide other financing
11 institutions making loans to farmers and ranchers with the
12 right to borrow from and rediscount with such merged banks
13 on a basis comparable with the production credit associations
14 regardless of the ownership of such banks. The provisions
15 of this Act shall be construed in keeping with this declaration
16 of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
20 TRANSFER OF ASSETS.—The production credit corporation
21 in each farm credit district is hereby merged in the Federal
22 intermediate credit bank of the district and all assets, funds,
23 contracts, property, and records belonging to such corpora-
24 tion, except stock in production credit associations, are hereby
25 transferred to and vested in such bank. All obligations

1 and liabilities of the production credit corporation shall be
2 assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration to be held by him
6 on behalf of the United States, and the Governor shall cancel
7 an equal par amount of stock of the corporation.

8 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
9 CREDIT ASSOCIATIONS.—In order to carry out the declared
10 policy of this Act with respect to the production credit
11 associations, the Farm Credit Administration shall, by
12 appropriate provisions in the charter and bylaws, or
13 otherwise, provide for such organization and assignment
14 of functions within the Federal intermediate credit banks as
15 will assure proper supervision of and assistance to the
16 production credit associations in a manner which will enable
17 them to make sound credit available to farmers and ranchers.
18 The income derived from the surplus transferred from the
19 production credit corporation to the Federal intermediate
20 credit bank of the district shall be used to pay expenses of
21 the bank in providing such supervision and assistance, and
22 expenses in excess of such income may be paid out of other
23 resources of the bank.

24 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
25 other provision of law, the employment of the officers and

1 employees of each Federal intermediate credit bank and
2 each production credit corporation is terminated on the effec-
3 tive date of this Act and the board of directors of the Federal
4 intermediate credit bank shall, not later than sixty days prior
5 to the effective date of this Act, take all necessary action to
6 reemploy as of such effective date such of the officers and
7 employees so terminated in such capacities as the board
8 determines they are qualified and needed to carry out the
9 functions, powers, and duties of the Federal intermediate
10 credit bank. Such reemployment shall be subject to the
11 approval of the Farm Credit Administration.

12 SEC. 102. Section 205 of the Federal Farm Loan Act,
13 as amended, is amended to read as follows:

14 "CAPITAL STOCK

15 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
16 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
17 intermediate credit bank is authorized to issue class A and
18 class B stock as follows:

19 "(1) Class A stock shall have a par value of \$100 per
20 share and shall be issued to and held by the Governor of the
21 Farm Credit Administration on behalf of the United States.
22 Stock of all Federal intermediate credit banks held by the
23 Secretary of the Treasury shall be transferred to the Gover-
24 nor and may be reallocated by him in such manner as he
25 determines necessary to meet the needs of the respective

1 banks. The Governor shall then exchange such stock of
2 each bank for an equal par amount of class A stock of the
3 bank. Stock of each production credit corporation held by
4 the Governor (less the amount canceled pursuant to section
5 101 of the Farm Credit Act of 1956) shall be exchanged
6 for an equal par amount of class A stock of the Federal in-
7 termediate credit bank in which such corporation is merged
8 pursuant to section 101 of such Act. No dividends shall
9 be paid on class A stock. Annually at the end of its fiscal
10 year each such bank shall determine the amount of its class
11 A stock which shall be retired. Whenever the total of the
12 capital stock, participation certificates, surplus, and reserves
13 of the bank is more than one-sixth of the highest month-end
14 balance of debentures and other obligations issued by or for
15 the bank, outstanding during the immediately preceding five
16 years, the minimum amount of class A stock to be retired
17 shall be the total amount of class B stock and participation
18 certificates issued for that year. All class A stock shall be
19 retired at par. The proceeds of such class A stock retire-
20 ments of each bank shall be paid into the Treasury as mis-
21 cellaneous receipts until there is so paid a sum equal to the
22 amount of class A stock of the bank issued in exchange for
23 stock of the production credit corporation. The proceeds of
24 any further such stock retirements shall be paid into the
25 revolving fund established by section 5 (e) of the Farm

1 Credit Act of 1933, as amended. The Governor of the
2 Farm Credit Administration is authorized to purchase from
3 time to time class A stock in any bank in such amount as he
4 determines is needed to meet the credit needs of the bank
5 and such revolving fund shall continue to be available for
6 such purchases as provided in said section 5 (e). The Gov-
7 ernor may at any time require the bank to retire such class
8 A stock if, in his judgment, the bank has resources avail-
9 able therefor, and the proceeds of such retirements shall be
10 returned to such revolving fund.

11 “(2) Class B stock shall have a par value of \$5 per
12 share and may be issued only to production credit associa-
13 tions in series and amounts approved by the Farm Credit
14 Administration. Such stock shall be issued only at par and
15 may be transferred to another production credit association
16 with the approval of the issuing bank. Whenever a bank
17 has no class A stock outstanding it may pay like dividends
18 on class B stock and participation certificates in an amount
19 not to exceed 5 per centum in any year if declared by the
20 board of directors. Dividends on class B stock and parti-
21 cipation certificates shall not be cumulative. Within sixty
22 days after the effective date of the Farm Credit Act of
23 1956, the production credit associations shall subscribe to
24 class B stock in the banks in an aggregate amount equal
25 to 15 per centum of the total amount of class A stock in

1 all banks. Such required amount of subscriptions shall be
2 allotted among the several districts in the proportion that
3 the average amount of the bank's loans to and discounts
4 for the production credit associations of the district, out-
5 standing during the immediately preceding five fiscal years,
6 is of the average of such loans and discounts of all banks
7 outstanding during such five-year period. The amount so
8 allotted to each district shall be further allotted to each pro-
9 duction credit association on the basis of the proportion that
10 its average indebtedness (loans and discounts) to the bank
11 during the immediately preceding five fiscal years is of
12 the average of such indebtedness of all production credit
13 associations to the bank during such five-year period. Each
14 production credit association shall subscribe to class B stock
15 in the bank of the district in the amount so allotted to it.
16 One-third of the purchase price of such stock subscription
17 shall be paid at the time of such subscription, one-third shall
18 be paid within one year after the effective date of said Act,
19 and the balance shall be paid within two years after such
20 effective date. Such class B stock shall be issued as pay-
21 ments therefor are made. Any production credit association
22 chartered after the effective date of the Farm Credit Act
23 of 1956 shall thereupon purchase class B stock in the bank
24 in the amount of \$5,000, and such amount shall be adjusted
25 at the end of five years thereafter to an amount determined

1 by applying to its average indebtedness to the bank during
2 such five-year period the same percentage as the percent-
3 age which the initial subscriptions of other production credit
4 associations was of their indebtedness, as provided in this
5 subsection: *Provided*, That this provision shall not apply
6 to any association owning stock in the bank in such required
7 amount as a result of merger, consolidation, or reorganiza-
8 tion of one or more associations. After all class A stock
9 has been retired, the bank may retire class B stock at par
10 and participation certificates at face amount under policies
11 established by the Farm Credit Administration. Class B
12 stock and participation certificates shall be retired without
13 preference and in such manner that the oldest outstanding
14 stock or certificates at any given time will be retired first.
15 In case of liquidation or dissolution of any production credit
16 association or other financing institution, the stock or par-
17 ticipation certificates of the bank owned by such associa-
18 tion or institution may be retired by the bank at the fair
19 book value thereof, not exceeding par or face amount, as
20 the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have
23 a first lien on all stock in the bank owned by each produc-
24 tion credit association and on all participation certificates
25 owned by other financing institutions as additional collateral

1 for any indebtedness of the holders thereof to the bank:
 2 *Provided*, That the bank shall make no loan or advance
 3 on the security of its own stock or participation certificates.
 4 In any case where the debt of a production credit associa-
 5 tion or other financing institution is in default, the bank
 6 may retire and cancel all or a part of the stock of the bank
 7 held by the association or of the participation certificates
 8 held by the other financing institution at the fair book value
 9 thereof, not exceeding par or face amount, as the case may
 10 be, in total or partial liquidation of the debt.”

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
 12 as amended, is hereby amended to read as follows:

13 “APPLICATION OF EARNINGS

14 “SEC. 206. (a) ANNUAL APPLICATION.—At the end
 15 of its fiscal year, each Federal intermediate credit bank shall
 16 determine the amount of its net earnings after paying or
 17 providing for all operating expenses (including reasonable
 18 valuation reserves and losses in excess of any such applicable
 19 reserves) and shall apply such net earnings as follows: (1)
 20 To the restoration of the amount of the impairment, if any,
 21 of capital stock and participation certificates, as determined
 22 by its board of directors; (2) to the restoration of the
 23 amount of the impairment, if any, of the surplus account
 24 established by this subsection, as determined by its board of

1 directors; (3) 25 per centum of any remaining earnings
2 shall be used to create and maintain a reserve account equal
3 to 25 per centum of the outstanding capital stock and partici-
4 pation certificates of the bank; (4) if said bank shall have
5 outstanding capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay to
7 the United States as a franchise tax, a sum equal to 25 per
8 centum of its earnings then remaining, not exceeding, how-
9 ever, a rate of return on such Government capital calculated
10 at a rate equal to the computed average annual rate of inter-
11 est on all public issues of public debt obligations of the
12 United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsection
19 (b) of this section. Notwithstanding the provisions of item
20 (3) of this subsection, if at the end of any fiscal year the sum
21 of the surplus and the reserve account of any bank is less
22 than its outstanding capital stock and participation certifi-
23 cates, the bank shall continue to apply such 25 per centum of
24 its net earnings to the reserve account until the sum of the
25 surplus and the reserve account is equal to its outstanding

1 capital stock and participation certificates. Each bank shall,
2 on the effective date of the Farm Credit Act of 1956, estab-
3 lish a surplus account consisting of its earned surplus account,
4 its reserve for contingencies, and the surplus of the produc-
5 tion credit corporation transferred to the bank. No part of
6 such surplus of any bank shall be distributed as patronage
7 refunds. In the event of a net loss in any fiscal year after
8 providing for all operating expenses (including reasonable
9 valuation reserves and losses in excess of any such applicable
10 reserves) , such loss shall be absorbed by: First, charges to the
11 reserve account; second, charges to surplus other than that
12 transferred from the production credit corporation of the
13 district; third, charges to surplus transferred from the pro-
14 duction credit corporation of the district; fourth, the impair-
15 ment of class B stock and participation certificates; and fifth,
16 the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end
18 of its fiscal year a Federal intermediate credit bank has
19 class A stock outstanding, patronage refunds declared for
20 that year shall be paid in class B stock to production credit
21 associations and in participation certificates to other financ-
22 ing institutions borrowing from or rediscounting with the
23 bank during the fiscal year for which such refunds are de-
24 clared. The recipients of such patronage refunds shall not be
25 subject to Federal income taxes thereon. Whenever at the

1 end of its fiscal year a Federal intermediate credit bank has
2 no class A stock outstanding, patronage refunds declared
3 for that year may be paid in such class B stock and par-
4 ticipation certificates or in cash as determined by the bank.
5 All patronage refunds shall be paid in the proportion that
6 the amount of interest earned by the bank on its loans to
7 and discounts for each production credit association or other
8 financing institution bears to the total interest earned by the
9 bank on all such loans and discounts outstanding during the
10 fiscal year. Each participation certificate issued in payment
11 of patronage refunds shall be in multiples of \$5 and shall
12 state on its face the rights, privileges, and conditions ap-
13 plicable thereto. Patronage refunds shall not be paid to any
14 other Federal intermediate credit bank, or to any Federal
15 land bank or bank for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after the payment or
19 retirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any sur-
22 plus established pursuant to subsection (a) of this section
23 shall be paid to the holders of class A and class B stock pro-
24 rata, and any remaining assets shall be distributed to the

1 holders of class B stock and the holders of participation cer-
2 tificates pro rata.”

3 SEC. 104. (a) Section 201 (b) of the Federal Farm
4 Loan Act, as amended, is hereby amended by adding at the
5 end thereof the following sentence: “The directors shall have
6 power, subject to the approval of the Farm Credit Adminis-
7 tration, to adopt such bylaws as may be necessary for the
8 conduct of the business of the banks.”

9 (b) Section 202 (a) of the Federal Farm Loan Act,
10 as amended, is hereby amended to read as follows:

11 “SEC. 202. (a) The Federal intermediate credit banks,
12 when chartered and established, shall have power, subject
13 solely to the restrictions, limitations, and conditions contained
14 in this Act or as may be prescribed by the Farm Credit Ad-
15 ministration not inconsistent with the provisions of this Act—

16 “(1) to discount for, or purchase from, any pro-
17 duction credit association organized under the Farm
18 Credit Act of 1933, as amended, with its endorsement,
19 any note, draft, or other such obligation presented by
20 such association; and to make loans and advances to any
21 such association secured by such collateral as may be
22 approved by the Governor of the Farm Credit Adminis-
23 tration;

24 “(2) to discount for, or purchase from, any national

1 bank, State bank, trust company, agricultural credit
2 corporation, incorporated livestock loan company, sav-
3 ings institution, credit union, and any association of agri-
4 cultural producers engaged in the making of loans to
5 farmers and ranchers, with its endorsement, any note,
6 draft, or other such obligation the proceeds of which
7 have been advanced or used in the first instance for
8 any agricultural purpose, including the breeding, raising,
9 fattening, or marketing of livestock; and to make loans
10 and advances to any such financing institution secured
11 by such collateral as may be approved by the Governor
12 of the Farm Credit Administration: *Provided*, That no
13 such loan or advance shall be made upon the security
14 of collateral other than notes or other such obligations
15 of farmers and ranchers eligible for discount or purchase
16 under the provisions of this section, unless such loan or
17 advance is made to enable the financing institution to
18 make or carry loans for any agricultural purpose; and
19 “(3) to make loans to and discount paper for any
20 other Federal intermediate credit bank, any Federal
21 land bank, or any bank for cooperatives organized under
22 the Farm Credit Act of 1933, as amended, all upon
23 terms and at rates of interest or discount approved by
24 the Farm Credit Administration.”

1 (c) Section 202 (c) of the Federal Farm Loan Act,
2 as amended, is amended by changing the word "three" to
3 the word "seven".

4 (d) Section 204 (a) of the Federal Farm Loan Act,
5 as amended, is amended to read as follows:

6 "SEC. 204. (a) Loans and discounts by any Federal
7 intermediate credit bank shall bear such rates of interest
8 or discount as the board of directors of the bank shall from
9 time to time determine with the approval of the Farm Credit
10 Administration, but the rates charged financing institutions
11 other than production credit associations shall be the same
12 as those charged production credit associations."

13 (e) Section 204 (b) of the Federal Farm Loan Act
14 is hereby repealed.

15 (f) Section 13 of the Federal Farm Loan Act, as
16 amended, is hereby amended by inserting in paragraph "Sev-
17 enteenth", after the words "Federal land banks", a comma
18 and the words "to Federal intermediate credit banks, or
19 to banks for cooperatives organized under the Farm Credit
20 Act of 1933, as amended,".

21 SEC. 105. (a) Section 2 of the Farm Credit Act of
22 1933, as amended, is amended to read as follows:

23 "SEC. 2. The Governor of the Farm Credit Administra-
24 tion, hereinafter in this Act referred to as the 'Governor',

1 is authorized and directed to organize and charter twelve
2 banks to be known as 'banks for cooperatives'. One such
3 bank shall be established in each city in which there is
4 located a Federal land bank. The members of the several
5 farm credit boards of the farm credit districts provided for
6 in section 5 of the Farm Credit Act of 1937, as amended,
7 shall be ex officio the directors of the respective banks
8 for cooperatives. Such directors shall have power, subject
9 to the approval of the Governor, to employ and fix the com-
10 pensation of such officers and employees of such banks as
11 may be necessary to carry out the powers and duties con-
12 ferred upon such banks under this Act."

13 (b) Section 3 of the Farm Credit Act of 1933 is
14 amended by striking from the first sentence the words "the
15 production credit corporations and" and by striking from
16 the second sentence the words "corporations and".

17 (c) Section 4 of the Farm Credit Act of 1933 is hereby
18 repealed.

19 (d) Section 5 of the Farm Credit Act of 1933, as
20 amended, is amended (1) by changing "\$120,000,000"
21 in subsection (a) thereof to "\$60,000,000"; (2) by strik-
22 ing from subsection (b) thereof the words "the production
23 credit corporations and"; (3) by changing "\$40,000,000"
24 in subsection (e) thereof to "\$100,000,000"; and (4) by

1 striking from subsection (e) thereof the words "and/or
2 paid-in surplus".

3 (e) Section 6 of the Farm Credit Act of 1933, as
4 amended, is amended to read as follows:

5 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
6 CREDIT ASSOCIATIONS

7 "SEC. 6. The Governor may purchase class A stock of
8 any production credit association in such amounts as he
9 determines are required to meet the credit needs of farmers
10 in the area served by such association. Payments for such
11 stock purchased by the Governor shall be made out of the
12 revolving fund authorized by section 5 (a) of this Act and
13 such stock shall be held by him on behalf of the United
14 States. The Governor may at any time require any pro-
15 duction credit association to retire and cancel any class A
16 stock held by him in such association if, in his judgment,
17 the association has resources available therefor, and the
18 proceeds of such stock retirements shall be paid into such
19 revolving fund."

20 (f) Section 20 of the Farm Credit Act of 1933 is
21 amended by changing the fourth sentence to read as follows:
22 "Such articles shall be signed by the individuals uniting
23 to form the association and a copy thereof shall be furnished
24 to the Governor."

1 (g) Section 21 of the Farm Credit Act of 1933, as
2 amended, is amended (1) by striking from the first sentence
3 the words "production credit corporations" and substituting
4 in lieu thereof the words "the Governor"; and (2) by
5 deleting the last sentence thereof.

6 (h) Section 22 of the Farm Credit Act of 1933, as
7 amended, is amended by striking out the words "produc-
8 tion credit corporation", wherever they appear therein, and
9 substituting in lieu thereof "Federal intermediate credit
10 bank".

11 (i) Section 23 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by changing the first sentence
13 to read as follows: "Each production credit association shall,
14 under such rules and regulations as may be prescribed by
15 the farm credit board of the district with the approval of
16 the Farm Credit Administration, invest its funds and make
17 loans to farmers for general agricultural purposes and other
18 requirements of the borrowers"; (2) by deleting the second
19 sentence; (3) by striking from the third sentence the
20 word "corporation" and inserting in lieu thereof the words
21 "Federal intermediate credit bank"; and (4) by changing
22 the period at the end of next to the last sentence to a colon
23 and adding the following: "*Provided*, That an association
24 may, under rules and regulations issued by the Farm Credit
25 Administration, make loans to any class B stockholder

1 secured by warehouse receipts covering agricultural com-
2 modities stored in bonded warehouses without the purchase
3 of additional class B stock."

4 (j) Section 34 of the Farm Credit Act of 1933, as
5 amended, is hereby amended by adding before the semi-
6 colon at the end of "(b)" the words "or to Federal land
7 banks or Federal intermediate credit banks".

8 (k) Section 41 of the Farm Credit Act of 1933, as
9 amended, is hereby amended by adding before the semi-
10 colon at the end of "(b)" the words "or to Federal land
11 banks or Federal intermediate credit banks".

12 (l) Section 60 of the Farm Credit Act of 1933, as
13 amended, is amended (1) by striking from the first sen-
14 tence the words "the production credit corporations,"; (2)
15 by striking from the second sentence the words "associa-
16 tion, or corporation" and substituting in lieu thereof the
17 words "or association"; and (3) by striking from the third
18 sentence the words "production credit corporation or", "or
19 corporation", and "corporation or", wherever they appear
20 therein.

21 (m) Section 61 of the Farm Credit Act of 1933 is
22 amended (1) by striking from the first sentence the words
23 "production credit corporation,"; and (2) by striking from
24 the second and third sentences the words "association, or

1 corporation", wherever they appear therein, and substitut-
2 ing in lieu thereof the words "or association".

3 (n) Section 62 of the Farm Credit Act of 1933, as
4 amended, is amended by striking out the words "production
5 credit corporations,".

6 (o) Section 63 of the Farm Credit Act of 1933, as
7 amended, is amended (1) by striking from the first sen-
8 tence the words "the production credit corporations,";
9 (2) by striking from the first and second sentences the
10 words "associations, or corporations" and "associations, and
11 corporations," and substituting in lieu thereof the words
12 "or associations" and "and associations," respectively; and
13 (3) by changing the last sentence to read as follows: "The
14 exemption provided herein shall not apply with respect to
15 any production credit association or its property or income
16 after the class A stock held in it by the Governor has been
17 retired, or with respect to any bank for cooperatives or its
18 property or income after the stock held in it by the United
19 States has been retired."

20 (p) Section 65 of the Farm Credit Act of 1933, as
21 amended, is amended (1) by striking out the words "pro-
22 duction credit corporation,"; and (2) by striking out the
23 words "association or corporation", wherever they appear
24 therein, and substituting in lieu thereof the words "or asso-
25 ciation".

1 (q) Section 86a of the Farm Credit Act of 1933 is
2 hereby repealed.

3 SEC. 106. (a) Section 5 of the Farm Credit Act of
4 1937, as amended, is amended (1) by striking from sub-
5 section (d) (2) (B) the words "production credit corpora-
6 tion of the district" and substituting in lieu thereof the
7 words "Governor of the Farm Credit Administration"; and
8 (2) by striking from subsection (h) the words "produc-
9 tion credit corporation,".

10 (b) Section 6 of the Farm Credit Act of 1937 is
11 amended (1) by striking from the first sentence of subsec-
12 tion (a) the words "production credit corporation,"; (2)
13 by striking from the third sentence of subsection (a) the
14 word "three"; (3) by striking from the first sentence of
15 subsection (b) the words "the bank for cooperatives, and
16 the production credit corporation" and substituting in lieu
17 thereof the words "and the bank for cooperatives"; and (4)
18 by striking from the last sentence of subsection (b) the
19 words "production credit corporation,".

20 SEC. 107. (a) Section 8 of the Farm Credit Act of
21 1953 is amended by striking out the words "production
22 credit corporation", wherever they appear therein, and sub-
23 stituting in lieu thereof the words "Federal intermediate
24 credit bank".

1 (b) Subsection (a) of section 16 of the Farm Credit
2 Act of 1953 is amended to read as follows:

3 “(a) Any other provisions of law to the contrary not-
4 withstanding, after the effective date of this Act any produc-
5 tion credit association may, with the approval of the Farm
6 Credit Administration, issue nonvoting preferred stock, to
7 be known as class C stock, which may be purchased and held
8 by the Governor of the Farm Credit Administration and by
9 investors: *Provided*, That the issuance of such stock shall be
10 authorized by vote of not less than two-thirds of the out-
11 standing shares of class A stock of the association (other
12 than shares held by the Governor of the Farm Credit Ad-
13 ministration) by the holders thereof in person or by proxy
14 and by vote of not less than two-thirds of the outstanding
15 shares of class B stock of the association by the holders
16 thereof in person or by proxy; and for this purpose holders
17 of class A stock (other than the Governor of the Farm
18 Credit Administration) and holders of class B stock shall be
19 entitled to one vote for each share of stock held by them.
20 Payments for such stock purchased by the Governor shall
21 be made out of the revolving fund created by section 5 (a)
22 of the Farm Credit Act of 1933, as amended, and the pro-
23 ceeds from the retirement of any such stock shall be paid
24 into such revolving fund.”

25 SEC. 108. Section 601 of the Department of Agriculture

1 Organic Act of 1944, as amended, is hereby amended (1) by
 2 striking from subsection (a) the words "production credit
 3 corporations," wherever they appear therein, and the word
 4 "corporations,"; (2) by striking from subsection (b) the
 5 words "the Federal intermediate credit banks, and the pro-
 6 duction credit corporations" and substituting in lieu thereof
 7 the words "and the Federal intermediate credit banks"; and
 8 (3) by striking from subsections (b) and (c) the words
 9 "and corporation", "and corporations", and "corporation,"
 10 wherever they appear therein.

11 SEC. 109. Sections 658 and 1014 of title 18, United
 12 States Code, are hereby amended by striking from each such
 13 section the words "or in which a production credit corpora-
 14 tion holds stock".

15 TITLE II—MISCELLANEOUS PROVISIONS

16 SEC. 201. (a) The Government Corporation Control
 17 Act, as amended, is amended (1) by striking from section
 18 101 the words "Federal Intermediate Credit Banks; Produc-
 19 tion Credit Corporations;"; (2) by inserting in section 201
 20 immediately following "(3)" the words "Federal Inter-
 21 mediate Credit Banks, (4)"; (3) by changing "(4)" in
 22 section 201 to "(5)"; and (4) by striking from sections
 23 302 and 303 the words "production credit corporations,".

24 (b) After the effective date of this Act, the Federal
 25 intermediate credit banks may utilize their funds for adminis-

1 trative expenses without regard to the limitations contained
2 in any other Act of Congress governing the expenditure of
3 appropriated funds.

4 (c) Paragraph Seventh of section 5136 of the Revised
5 Statutes as amended, is amended (1) by inserting in next
6 to the last sentence immediately before the words "Federal
7 Home Loan Banks", the words "thirteen banks for coopera-
8 tives or any of them or the"; and (2) by changing the last
9 sentence to read as follows: "The limitations and restrictions
10 herein contained as to dealing in and underwriting investment
11 securities shall not apply to obligations issued by the Inter-
12 national Bank for Reconstruction and Development which
13 are at the time eligible for purchase by a national bank for
14 its own account: *Provided*, That no association shall hold
15 obligations issued by said bank as a result of underwriting,
16 dealing, or purchasing for its own account (and for this pur-
17 pose obligations as to which it is under commitment shall be
18 deemed to be held by it) in a total amount exceeding at any
19 one time 10 per centum of its capital stock actually paid in
20 and unimpaired and 10 per centum of its unimpaired surplus
21 fund."

22 SEC. 202. (a) This Act shall become effective on Janu-
23 ary 1 next following its enactment.

24 (b) For purposes of applying the amendment in section
25 103 of this Act, that part of the fiscal year 1957 preceding

1 the effective date of this Act shall be deemed to be a separate
2 fiscal year.

3 SEC. 203. (a) If any provision of this Act, or the appli-
4 cation thereof to any person or circumstance, is held invalid,
5 the remainder of the Act, and the application of such pro-
6 visions to other persons or circumstances, shall not be affected
7 thereby.

8 (b) The right to alter, amend, or repeal this Act is
9 hereby expressly reserved.

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. HOLLAND

MARCH 29 (legislative day, March 26), 1956

Read twice and referred to the Committee on
Agriculture and Forestry

84TH CONGRESS
2D SESSION

H. R. 10285

IN THE HOUSE OF REPRESENTATIVES

MARCH 29, 1956

Mr. COOLEY introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATION OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculture with a sound, dependable,
8 and effective source of credit; to promote the efficiency of the
9 farm credit system by merging production credit corporations

1 in Federal intermediate credit banks and to facilitate farmer
2 ownership of the merged banks and retirement of Govern-
3 ment capital therein; to encourage and promote the con-
4 tinued growth and development of the production credit
5 associations as self-supporting cooperative lending institu-
6 tions operating on a sound credit basis with maximum local
7 authority to determine credit needs and loan policies con-
8 sistent with the maintenance of a national production credit
9 system; and to continue to provide other financing institu-
10 tions making loans to farmers and ranchers with the right
11 to borrow from and rediscount with such merged banks on
12 a basis comparable with the production credit associations
13 regardless of the ownership of such banks. The provisions
14 of this Act shall be construed in keeping with this declara-
15 tion of policy.

16 TITLE I—PRODUCTION CREDIT SYSTEM

17 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
18 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
19 TRANSFER OF ASSETS.—The production credit corporation in
20 each farm credit district is hereby merged in the Federal
21 intermediate credit bank of the district and all assets, funds,
22 contracts, property, and records belonging to such corpora-
23 tion, except stock in production credit associations, are
24 hereby transferred to and vested in such bank. All obliga-
25 tions and liabilities of the production credit corporation shall

1 be assumed by the Federal intermediate credit bank of the
2 district. Stock held by each production credit corporation
3 in production credit associations is transferred to the Gov-
4 ernor of the Farm Credit Administration to be held by him
5 on behalf of the United States, and the Governor shall can-
6 cel an equal par amount of stock of the corporation.

7 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
8 CREDIT ASSOCIATIONS.—In order to carry out the declared
9 policy of this Act with respect to the production credit asso-
10 ciations, the Farm Credit Administration shall, by appropri-
11 ate provisions in the charter and bylaws, or otherwise, pro-
12 vide for such organization and assignment of functions within
13 the Federal intermediate credit banks as will assure proper
14 supervision of and assistance to the production credit associa-
15 tions in a manner which will enable them to make sound
16 credit available to farmers and ranchers. The income de-
17 rived from the surplus transferred from the production credit
18 corporation to the Federal intermediate credit bank of the
19 district shall be used to pay expenses of the bank in pro-
20 viding such supervision and assistance, and expenses in ex-
21 cess of such income may be paid out of other resources of
22 the bank.

23 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
24 other provision of law, the employment of the officers and
25 employees of each Federal intermediate credit bank and

1 each production credit corporation is terminated on the effec-
2 tive date of this Act and the board of directors of the Federal
3 intermediate credit bank shall, not later than sixty days prior
4 to the effective date of this Act, take all necessary action
5 to reemploy as of such effective date such of the officers and
6 employees so terminated in such capacities as the board
7 determines they are qualified and needed to carry out the
8 functions, powers, and duties of the Federal intermediate
9 credit bank. Such reemployment shall be subject to the
10 approval of the Farm Credit Administration.

11 SEC. 102. Section 205 of the Federal Farm Loan Act,
12 as amended, is amended to read as follows:

13 "CAPITAL STOCK

14 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
15 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
16 intermediate credit bank is authorized to issue class A and
17 class B stock as follows:

18 "(1) Class A stock shall have a par value of \$100
19 per share and shall be issued to and held by the Governor
20 of the Farm Credit Administration on behalf of the United
21 States. Stock of all Federal intermediate credit banks held
22 by the Secretary of the Treasury shall be transferred to the
23 Governor and may be reallocated by him in such manner
24 as he determines necessary to meet the needs of the respec-
25 tive banks. The Governor shall then exchange such stock

1 of each bank for an equal par amount of class A stock of
2 the bank. Stock of each production credit corporation held
3 by the Governor (less the amount canceled pursuant to
4 section 101 of the Farm Credit Act of 1956) shall be
5 exchanged for an equal par amount of class A stock of
6 the Federal intermediate credit bank in which such corpora-
7 tion is merged pursuant to section 101 of such Act. No
8 dividends shall be paid on class A stock. Annually at the
9 end of its fiscal year each such bank shall determine the
10 amount of its class A stock which shall be retired. When-
11 ever the total of the capital stock, participation certificates,
12 surplus, and reserves of the bank is more than one-sixth
13 of the highest month-end balance of debentures and other
14 obligations issued by or for the bank, outstanding during
15 the immediately preceding five years, the minimum amount
16 of class A stock to be retired shall be the total amount of
17 class B stock and participation certificates issued for that
18 year. All class A stock shall be retired at par. The pro-
19 ceeds of such class A stock retirements of each bank shall
20 be paid into the Treasury as miscellaneous receipts until
21 there is so paid a sum equal to the amount of class A stock
22 of the bank issued in exchange for stock of the production
23 credit corporation. The proceeds of any further such stock
24 retirements shall be paid into the revolving fund established
25 by section 5 (e) of the Farm Credit Act of 1933, as

1 amended. The Governor of the Farm Credit Administra-
2 tion is authorized to purchase from time to time class A
3 stock in any bank in such amount as he determines is needed
4 to meet the credit needs of the bank and such revolving
5 fund shall continue to be available for such purchases as
6 provided in said section 5 (e). The Governor may at any
7 time require the bank to retire such class A stock if, in
8 his judgment, the bank has resources available therefor,
9 and the proceeds of such retirements shall be returned to
10 such revolving fund.

11 “(2) Class B stock shall have a par value of \$5 per
12 share and may be issued only to production credit associations
13 in series and amounts approved by the Farm Credit Admin-
14 istration. Such stock shall be issued only at par and may
15 be transferred to another production credit association with
16 the approval of the issuing bank. Whenever a bank has no
17 class A stock outstanding it may pay like dividends on class
18 B stock and participation certificates in an amount not to
19 exceed 5 per centum in any year if declared by the board
20 of directors. Dividends on class B stock and participation
21 certificates shall not be cumulative. Within sixty days after
22 the effective date of the Farm Credit Act of 1956, the pro-
23 duction credit associations shall subscribe to class B stock
24 in the banks in an aggregate amount equal to 15 per centum
25 of the total amount of class A stock in all banks. Such

1 required amount of subscriptions shall be allotted among the
2 several districts in the proportion that the average amount
3 of the bank's loans to and discounts for the production credit
4 associations of the district, outstanding during the imme-
5 diately preceding five fiscal years, is of the average of such
6 loans and discounts of all banks outstanding during such five-
7 year period. The amount so allotted to each district shall be
8 further allotted to each production credit association on the
9 basis of the proportion that its average indebtedness (loans
10 and discounts) to the bank during the immediately preceding
11 five fiscal years is of the average of such indebtedness of all
12 production credit associations to the bank during such five-
13 year period. Each production credit association shall sub-
14 scribe to class B stock in the bank of the district in the
15 amount so allotted to it. One-third of the purchase price
16 of such stock subscription shall be paid at the time of such
17 subscription, one-third shall be paid within one year after
18 the effective date of said Act, and the balance shall be paid
19 within two years after such effective date. Such class B
20 stock shall be issued as payments therefor are made. Any
21 production credit association chartered after the effective date
22 of the Farm Credit Act of 1956 shall thereupon purchase
23 class B stock in the bank in the amount of \$5,000, and
24 such amount shall be adjusted at the end of five years there-
25 after to an amount determined by applying to its average in-

1 indebtedness to the bank during such five-year period the
2 same percentage as the percentage which the initial sub-
3 scriptions of other production credit associations was of
4 their indebtedness, as provided in this subsection: *Provided*,
5 That this provision shall not apply to any association owning
6 stock in the bank in such required amount as a result of
7 merger, consolidation, or reorganization of one or more
8 associations. After all class A stock has been retired, the
9 bank may retire class B stock at par and participation cer-
10 tificates at a face amount under policies established by the
11 Farm Credit Administration. Class B stock and participa-
12 tion certificates shall be retired without preference and in
13 such manner that the oldest outstanding stock or certificates
14 at any given time will be retired first. In case of liquida-
15 tion or dissolution of any production credit association or
16 other financing institution, the stock or participation cer-
17 tificates of the bank owned by such association or institu-
18 tion may be retired by the bank at the fair book value thereof,
19 not exceeding par or face amount, as the case may be.

20 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
21 CATES.—Each Federal intermediate credit bank shall have a
22 first lien on all stock in the bank owned by each production
23 credit association and on all participation certificates owned
24 by other financing institutions as additional collateral for any
25 indebtedness of the holders thereof to the bank: *Provided*,

1 That the bank shall make no loan or advance on the security
 2 of its own stock or participation certificates. In any case
 3 where the debt of a production credit association or other
 4 financing institution is in default, the bank may retire and
 5 cancel all or a part of the stock of the bank held by the
 6 association or of the participation certificates held by the
 7 other financing institution at the fair book value thereof,
 8 not exceeding par or face amount, as the case may be, in
 9 total or partial liquidation of the debt.”

10 SEC. 103. Section 206 of the Federal Farm Loan Act,
 11 as amended, is hereby amended to read as follows:

12 “APPLICATION OF EARNINGS

13 “SEC. 206. (a) ANNUAL APPLICATION.—At the end
 14 of its fiscal year, each Federal intermediate credit bank shall
 15 determine the amount of its net earnings after paying or
 16 providing for all operating expenses (including reasonable
 17 valuation reserves and losses in excess of any such applicable
 18 reserves) and shall apply such net earnings as follows: (1)
 19 To the restoration of the amount of the impairment, if any,
 20 of capital stock and participation certificates, as determined
 21 by its board of directors; (2) to the restoration of the amount
 22 of the impairment, if any, of the surplus account established
 23 by this subsection, as determined by its board of directors;
 24 (3) 25 per centum of any remaining earnings shall be used

1 to create and maintain a reserve account equal to 25 per
2 centum of the outstanding capital stock and participation
3 certificates of the bank; (4) if said bank shall have out-
4 standing capital stock held by the United States during
5 the whole or any part of its fiscal year, it shall next pay
6 to the United States as a franchise tax, a sum equal to 25
7 per centum of its earnings then remaining, not exceeding,
8 however, a rate of return on such Government capital cal-
9 culated at a rate equal to the computed average annual rate
10 of interest on all public issues of public debt obligations of
11 the United States issued during the fiscal year of the United
12 States Treasury ending next before such tax is due, as certi-
13 fied to the Farm Credit Administration by the Secretary of
14 the Treasury; (5) dividends on class B stock and participa-
15 tion certificates may be declared as provided in section 205
16 (a) of this Act; and (6) any remaining net earnings shall
17 be distributed as patronage refunds as provided in subsec-
18 tion (b) of this section. Notwithstanding the provisions of
19 item (3) of this subsection, if at the end of any fiscal year
20 the sum of the surplus and the reserve account of any bank
21 is less than its outstanding capital stock and participation
22 certificates, the bank shall continue to apply such 25 per
23 centum of its net earnings to the reserve account until the
24 sum of the surplus and the reserve account is equal to its
25 outstanding capital stock and participation certificates. Each

1 bank shall, on the effective date of the Farm Credit Act
2 of 1956, establish a surplus account consisting of its earned
3 surplus account, its reserve for contingencies, and the surplus
4 of the production credit corporation transferred to the bank.
5 No part of such surplus of any bank shall be distributed as
6 patronage refunds. In the event of a net loss in any fiscal
7 year after providing for all operating expenses (including
8 reasonable valuation reserves and losses in excess of any such
9 applicable reserves), such loss shall be absorbed by: first,
10 charges to the reserve account; second, charges to surplus
11 other than that transferred from the production credit cor-
12 poration of the district; third, charges to surplus transferred
13 from the production credit corporation of the district; fourth,
14 the impairment of class B stock and participation certificates;
15 and fifth, the impairment of class A stock.

16 “(b) PATRONAGE REFUNDS.—Whenever at the end of
17 its fiscal year a Federal intermediate credit bank has class A
18 stock outstanding, patronage refunds declared for that year
19 shall be paid in class B stock to production credit associations
20 and in participation certificates to other financing institutions
21 borrowing from or rediscounting with the bank during the
22 fiscal year for which such refunds are declared. The recipi-
23 ents of such patronage refunds shall not be subject to Federal
24 income taxes thereon. Whenever at the end of its fiscal year
25 a Federal intermediate credit bank has no class A stock

1 outstanding, patronage refunds declared for that year may
2 be paid in such class B stock and participation certificates or
3 in cash as determined by the bank. All patronage refunds
4 shall be paid in the proportion that the amount of interest
5 earned by the bank on its loans to and discounts for each
6 production credit association or other financing institution
7 bears to the total interest earned by the bank on all such
8 loans and discounts outstanding during the fiscal year. Each
9 participation certificate issued in payment of patronage re-
10 funds shall be in multiples of \$5 and shall state on its face the
11 rights, privileges, and conditions applicable thereto. Patron-
12 age refunds shall not be paid to any other Federal inter-
13 mediate credit bank, or to any Federal land bank or bank
14 for cooperatives.

15 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
16 DISSOLUTION.—In the case of liquidation or dissolution of
17 any Federal intermediate credit bank, after the payment or
18 retirement, as the case may be, first, of all liabilities; second,
19 of all class A stock at par; third, of all class B stock at par
20 and all participation certificates at face amount; any surplus
21 established pursuant to subsection (a) of this section shall be
22 paid to the holders of class A and class B stock pro rata, and
23 any remaining assets shall be distributed to the holders of
24 class B stock and the holders of participation certificates pro
25 rata.”

1 SEC. 104. (a) Section 201 (b) of the Federal Farm
2 Loan Act, as amended, is hereby amended by adding at the
3 end thereof the following sentence: "The directors shall have
4 power, subject to the approval of the Farm Credit Adminis-
5 tration, to adopt such bylaws as may be necessary for the
6 conduct of the business of the banks."

7 (b) Section 202 (a) of the Federal Farm Loan Act,
8 as amended, is hereby amended to read as follows:

9 "SEC. 202. (a) The Federal intermediate credit banks,
10 when chartered and established, shall have power, subject
11 solely to the restrictions, limitations, and conditions contained
12 in this Act or as may be prescribed by the Farm Credit Ad-
13 ministration not inconsistent with the provisions of this Act—

14 "(1) to discount for, or purchase from, any produc-
15 tion credit association organized under the Farm Credit
16 Act of 1933, as amended, with its endorsement, any
17 note, draft, or other such obligation presented by such
18 association; and to make loans and advances to any such
19 association secured by such collateral as may be ap-
20 proved by the Governor of the Farm Credit Ad-
21 ministration;

22 "(2) to discount for, or purchase from, any national
23 bank, State bank, trust company, agricultural credit
24 corporation, incorporated livestock loan company, sav-

1 ings institution, credit union, and any association of agri-
2 cultural producers engaged in the making of loans to
3 farmers and ranchers, with its endorsement, any note,
4 draft, or other such obligation the proceeds of which
5 have been advanced or used in the first instance for
6 any agricultural purpose, including the breeding, raising,
7 fattening, or marketing of livestock; and to make loans
8 and advances to any such financing institution secured
9 by such collateral as may be approved by the Governor
10 of the Farm Credit Administration: *Provided*, That no
11 such loan or advance shall be made upon the security of
12 collateral other than notes or other such obligations of
13 farmers and ranchers eligible for discount or purchase
14 under the provisions of this section, unless such loan
15 or advance is made to enable the financing institution to
16 make or carry loans for any agricultural purpose; and

17 “(3) to make loans to and discount paper for any
18 other Federal intermediate credit bank, any Federal land
19 bank, or any bank for cooperatives organized under the
20 Farm Credit Act of 1933, as amended, all upon terms
21 and at rates of interest or discount approved by the Farm
22 Credit Administration.”

23 (c) Section 202 (c) of the Federal Farm Loan Act,
24 as amended, is amended by changing the word “three” to
25 the word “seven”.

1 (d) Section 204 (a) of the Federal Farm Loan Act,
2 as amended, is amended to read as follows:

3 "SEC. 204. (a) Loans and discounts by any Federal
4 intermediate credit bank shall bear such rates of interest
5 or discount as the board of directors of the bank shall from
6 time to time determine with the approval of the Farm Credit
7 Administration, but the rates charged financing institutions
8 other than production credit associations shall be the same
9 as those charged production credit associations."

10 (e) Section 204 (b) of the Federal Farm Loan Act
11 is hereby repealed.

12 (f) Section 13 of the Federal Farm Loan Act, as
13 amended, is hereby amended by inserting in paragraph
14 "Seventeenth", after the words "Federal land banks", a
15 comma and the words "to Federal intermediate credit banks,
16 or to banks for cooperatives organized under the Farm
17 Credit Act of 1933, as amended,".

18 SEC. 105. (a) Section 2 of the Farm Credit Act of
19 1933, as amended, is amended to read as follows:

20 "SEC. 2. The Governor of the Farm Credit Administra-
21 tion, hereinafter in this Act referred to as the 'Governor',
22 is authorized and directed to organize and charter twelve
23 banks to be known as 'banks for cooperatives'. One such
24 bank shall be established in each city in which there is
25 located a Federal land bank. The members of the several

1 farm credit boards of the farm credit districts provided for
2 in section 5 of the Farm Credit Act of 1937, as amended,
3 shall be ex officio the directors of the respective banks for
4 cooperatives. Such directors shall have power, subject to
5 the approval of the Governor, to employ and fix the compen-
6 sation of such officers and employees of such banks as may
7 be necessary to carry out the powers and duties conferred
8 upon such banks under this Act."

9 (b) Section 3 of the Farm Credit Act of 1933 is
10 amended by striking from the first sentence the words "the
11 production credit corporations and" and by striking from
12 the second sentence the words "corporations and".

13 (c) Section 4 of the Farm Credit Act of 1933 is hereby
14 repealed.

15 (d) Section 5 of the Farm Credit Act of 1933, as
16 amended, is amended (1) by changing "\$120,000,000" in
17 subsection (a) thereof to "\$60,000,000"; (2) by striking
18 from subsection (b) thereof the words "the production credit
19 corporations and"; (3) by changing "\$40,000,000" in sub-
20 section (e) thereof to "\$100,000,000"; and (4) by striking
21 from subsection (e) thereof the words "and/or paid-in
22 surplus".

23 (e) Section 6 of the Farm Credit Act of 1933, as
24 amended, is amended to read as follows:

1 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
2 CREDIT ASSOCIATIONS

3 "SEC. 6. The Governor may purchase class A stock of
4 any production credit association in such amounts as he
5 determines are required to meet the credit needs of farmers
6 in the area served by such association. Payments for such
7 stock purchased by the Governor shall be made out of the
8 revolving fund authorized by section 5 (a) of this Act and
9 such stock shall be held by him on behalf of the United
10 States. The Governor may at any time require any produc-
11 tion credit association to retire and cancel any class A stock
12 held by him in such association if, in his judgment, the
13 association has resources available therefor, and the proceeds
14 of such stock retirements shall be paid into such revolving
15 fund."

16 (f) Section 20 of the Farm Credit Act of 1933 is
17 amended by changing the fourth sentence to read as fol-
18 lows: "Such articles shall be signed by the individuals unit-
19 ing to form the association and a copy thereof shall be
20 furnished to the Governor."

21 (g) Section 21 of the Farm Credit Act of 1933, as
22 amended, is amended (1) by striking from the first sentence
23 the words "production credit corporations" and substituting
24 in lieu thereof the words "the Governor"; and (2) by
25 deleting the last sentence thereof.

1 (h) Section 22 of the Farm Credit Act of 1933, as
2 amended, is amended by striking out the words "production
3 credit corporation", wherever they appear therein, and sub-
4 stituting in lieu thereof "Federal intermediate credit bank".

5 (i) Section 23 of the Farm Credit Act of 1933, as
6 amended, is amended (1) by changing the first sentence
7 to read as follows: "Each production credit association shall,
8 under such rules and regulations as may be prescribed by
9 the farm credit board of the district with the approval of
10 the Farm Credit Administration, invest its funds and make
11 loans to farmers for general agricultural purposes and other
12 requirements of the borrowers"; (2) by deleting the second
13 sentence; (3) by striking from the third sentence the word
14 "corporation" and inserting in lieu thereof the words "Fed-
15 eral intermediate credit bank"; and (4) by changing the
16 period at the end of next to the last sentence to a colon and
17 adding the following: "*Provided*, That an association may,
18 under rules and regulations issued by the Farm Credit Ad-
19 ministration, make loans to any class B stockholder secured
20 by warehouse receipts covering agricultural commodities
21 stored in bonded warehouses without the purchase of addi-
22 tional class B stock."

23 (j) Section 34 of the Farm Credit Act of 1933, as
24 amended, is hereby amended by adding before the semicolon

1 at the end of “(b)” the words “or to Federal land banks or
2 Federal intermediate credit banks”.

3 (k) Section 41 of the Farm Credit Act of 1933, as
4 amended, is hereby amended by adding before the semicolon
5 at the end of “(b)” the words “or to Federal land banks
6 or Federal intermediate credit banks”.

7 (l) Section 60 of the Farm Credit Act of 1933, as
8 amended, is amended (1) by striking from the first sentence
9 the words “the production credit corporations,”; (2) by
10 striking from the second sentence the words “association, or
11 corporation” and substituting in lieu thereof the words “or
12 association”; and (3) by striking from the third sentence
13 the words “production credit corporation or”, “or corpora-
14 tion”, and “corporation or”, wherever they appear therein.

15 (m) Section 61 of the Farm Credit Act of 1933 is
16 amended (1) by striking from the first sentence the words
17 “production credit corporation,”; and (2) by striking from
18 the second and third sentences the words “association, or
19 corporation”, wherever they appear therein, and substituting
20 in lieu thereof the words “or association”.

21 (n) Section 62 of the Farm Credit Act of 1933, as
22 amended, is amended by striking out the words “production
23 credit corporations,”.

24 (o) Section 63 of the Farm Credit Act of 1933, as
25 amended, is amended (1) by striking from the first sentence

1 the words "the production credit corporations,"; (2) by
2 striking from the first and second sentences the words "asso-
3 ciations, or corporations" and "associations, and corpora-
4 tions," and substituting in lieu thereof, the words "or associ-
5 ations" and "and associations," respectively; and (3) by
6 changing the last sentence to read as follows: "The exemp-
7 tion provided herein shall not apply with respect to any
8 production credit association or its property or income after
9 the class A stock held in it by the Governor has been retired,
10 or with respect to any bank for cooperatives or its property
11 or income after the stock held in it by the United States
12 has been retired."

13 (p) Section 65 of the Farm Credit Act of 1933, as
14 amended, is amended (1) by striking out the words "pro-
15 duction credit corporation,"; and (2) by striking out the
16 words "association or corporation", wherever they appear
17 therein, and substituting in lieu thereof the words "or
18 association".

19 (q) Section 86a of the Farm Credit Act of 1933 is
20 hereby repealed.

21 SEC. 106. (a) Section 5 of the Farm Credit Act of
22 1937, as amended, is amended (1) by striking from sub-
23 section (d) (2) (B) the words "production credit cor-
24 poration of the district" and substituting in lieu thereof the
25 words "Governor of the Farm Credit Administration"; and

1 (2) by striking from subsection (h) the words "production
2 credit corporation,".

3 (b) Section 6 of the Farm Credit Act of 1937 is
4 amended (1) by striking from the first sentence of subsec-
5 tion (a) the words "production credit corporation,"; (2)
6 by striking from the third sentence of subsection (a) the
7 word "three"; (3) by striking from the first sentence of
8 subsection (b) the words "the bank for cooperatives, and
9 the production credit corporation" and substituting in lieu
10 thereof the words "and the bank for cooperatives"; and (4)
11 by striking from the last sentence of subsection (b) the
12 words "production credit corporation,".

13 SEC. 107. (a) Section 8 of the Farm Credit Act of
14 1953 is amended by striking out the words "production credit
15 corporation", wherever they appear therein, and substituting
16 in lieu thereof the words "Federal intermediate credit bank".

17 (b) Subsection (a) of section 16 of the Farm Credit
18 Act of 1953 is amended to read as follows:

19 "(a) Any other provisions of law to the contrary not-
20 withstanding, after the effective date of this Act any produc-
21 tion credit association may, with the approval of the Farm
22 Credit Administration, issue nonvoting preferred stock, to be
23 known as class C stock, which may be purchased and held
24 by the Governor of the Farm Credit Administration and by
25 investors: *Provided*, That the issuance of such stock shall be

1 authorized by vote of not less than two-thirds of the outstand-
2 ing shares of class A stock of the association (other than
3 shares held by the Governor of the Farm Credit Adminis-
4 tration' by the holders thereof in person or by proxy and
5 by vote of not less than two-thirds of the outstanding shares
6 of class B stock of the association by the holders thereof in
7 person or by proxy; and for this purpose holders of class A
8 stock (other than the Governor of the Farm Credit Ad-
9 ministration) and holders of class B stock shall be entitled
10 to one vote for each share of stock held by them. Payments
11 for such stock purchased by the Governor shall be made out
12 of the revolving fund created by section 5 (a) of the Farm
13 Credit Act of 1933, as amended, and the proceeds from the
14 retirement of any such stock shall be paid into such revolving
15 fund."

16 SEC. 108. Section 601 of the Department of Agriculture
17 Organic Act of 1944, as amended, is hereby amended (1)
18 by striking from subsection (a) the words "production
19 credit corporations," wherever they appear therein, and
20 the word "corporations,"; (2) by striking from subsection
21 (b) the words "the Federal intermediate credit banks, and
22 the production credit corporations" and substituting in lieu
23 thereof the words "and the Federal intermediate credit
24 banks"; and (3) by striking from subsections (b) and (c)

1 the words "and corporation", "and corporations", and "cor-
2 poration,", wherever they appear therein.

3 SEC. 109. Sections 658 and 1014 of title 18, United
4 States Code, are hereby amended by striking from each
5 such section the words "or in which a production credit
6 corporation holds stock".

7 TITLE II—MISCELLANEOUS PROVISIONS

8 SEC. 201. (a) The Government Corporation Control
9 Act, as amended, is amended (1) by striking from section
10 101 the words "Federal Intermediate Credit Banks; Pro-
11 duction Credit Corporations;"; (2) by inserting in section
12 201 immediately following "(3)" the words "Federal Inter-
13 mediate Credit Banks, (4)"; (3) by changing "(4)" in
14 section 201 to "(5)"; and (4) by striking from sections
15 302 and 303 the words "production credit corporations,".

16 (b) After the effective date of this Act, the Federal
17 intermediate credit banks may utilize their funds for ad-
18 ministrative expenses without regard to the limitations con-
19 tained in any other Act of Congress governing the expendi-
20 ture of appropriated funds.

21 (c) Paragraph Seventh of section 5136 of the Revised
22 Statutes as amended, is amended (1) by inserting in next
23 to the last sentence immediately before the words "Federal
24 Home Loan Banks", the words "thirteen banks for coopera-
25 tives or any of them or the"; and (2) by changing the last

1 sentence to read as follows: "The limitations and restrictions
2 herein contained as to dealing in and underwriting invest-
3 ment securities shall not apply to obligations issued by the
4 International Bank for Reconstruction and Development
5 which are at the time eligible for purchase by a national bank
6 for its own account: *Provided*, That no association shall
7 hold obligations issued by said bank as a result of under-
8 writing, dealing, or purchasing for its own account (and for
9 this purpose obligations as to which it is under commitment
10 shall be deemed to be held by it) in a total amount exceed-
11 ing at any one time 10 per centum of its capital stock ac-
12 tually paid in and unimpaired and 10 per centum of its
13 unimpaired surplus fund."

14 SEC. 202. (a) This Act shall become effective on Jan-
15 uary 1 next following its enactment.

16 (b) For purposes of applying the amendment in sec-
17 tion 103 of this Act, that part of the fiscal year 1957 pre-
18 ceding the effective date of this Act shall be deemed to be a
19 separate fiscal year.

20 SEC. 203. (a) If any provision of this Act, or the ap-
21 plication thereof to any person or circumstance, is held
22 invalid, the remainder of the Act, and the application of such
23 provisions to other persons or circumstances, shall not be
24 affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. COOLEY

MARCH 29, 1956

Referred to the Committee on Agriculture

84TH CONGRESS
2D SESSION

H. R. 10286

IN THE HOUSE OF REPRESENTATIVES

MARCH 29, 1956

Mr. HOPE introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATION OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculturre with a sound, dependable,
8 and effective source of credit; to promote the efficiency of

1 the farm credit system by merging production credit cor-
2 porations in Federal intermediate credit banks and to facili-
3 tate farmer ownership of the merged banks and retirement
4 of Government capital therein; to encourage and promote
5 the continued growth and development of the production
6 credit associations as self-supporting cooperative lending in-
7 stitutions operating on a sound credit basis with maximum
8 local authority to determine credit needs and loan policies
9 consistent with the maintenance of a national production
10 credit system; and to continue to provide other financing
11 institutions making loans to farmers and ranchers with the
12 right to borrow from and rediscount with such merged banks
13 on a basis comparable with the production credit associations
14 regardless of the ownership of such banks. The provisions
15 of this Act shall be construed in keeping with this declaration
16 of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
20 TRANSFER OF ASSETS.—The production credit corporation
21 in each farm credit district is hereby merged in the Federal
22 intermediate credit bank of the district and all assets, funds,
23 contracts, property, and records belonging to such corpora-
24 tion, except stock in production credit associations, are hereby
25 transferred to and vested in such bank. All obligations

1 and liabilities of the production credit corporation shall be
2 assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration to be held by him
6 on behalf of the United States, and the Governor shall cancel
7 an equal par amount of stock of the corporation.

8 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
9 CREDIT ASSOCIATIONS.—In order to carry out the declared
10 policy of this Act with respect to the production credit
11 associations, the Farm Credit Administration shall, by
12 appropriate provisions in the charter and bylaws, or
13 otherwise, provide for such organization and assignment
14 of functions within the Federal intermediate credit banks as
15 will assure proper supervision of and assistance to the
16 production credit associations in a manner which will enable
17 them to make sound credit available to farmers and ranchers.
18 The income derived from the surplus transferred from the
19 production credit corporation to the Federal intermediate
20 credit bank of the district shall be used to pay expenses of
21 the bank in providing such supervision and assistance, and
22 expenses in excess of such income may be paid out of other
23 resources of the bank.

24 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
25 other provision of law, the employment of the officers and

1 employees of each Federal intermediate credit bank and
2 each production credit corporation is terminated on the effec-
3 tive date of this Act and the board of directors of the Federal
4 intermediate credit bank shall, not later than sixty days prior
5 to the effective date of this Act, take all necessary action to
6 reemploy as of such effective date such of the officers and
7 employees so terminated in such capacities as the board
8 determines they are qualified and needed to carry out the
9 functions, powers, and duties of the Federal intermediate
10 credit bank. Such reemployment shall be subject to the
11 approval of the Farm Credit Administration.

12 SEC. 102. Section 205 of the Federal Farm Loan Act,
13 as amended, is amended to read as follows:

14 "CAPITAL STOCK

15 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
16 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
17 intermediate credit bank is authorized to issue class A and
18 class B stock as follows:

19 "(1) Class A stock shall have a par value of \$100 per
20 share and shall be issued to and held by the Governor of the
21 Farm Credit Administration on behalf of the United States.
22 Stock of all Federal intermediate credit banks held by the
23 Secretary of the Treasury shall be transferred to the Gover-
24 nor and may be reallocated by him in such manner as he
25 determines necessary to meet the needs of the respective

1 banks. The Governor shall then exchange such stock of
2 each bank for an equal par amount of class A stock of the
3 bank. Stock of each production credit corporation held by
4 the Governor (less the amount canceled pursuant to section
5 101 of the Farm Credit Act of 1956) shall be exchanged
6 for an equal par amount of class A stock of the Federal in-
7 termediate credit bank in which such corporation is merged
8 pursuant to section 101 of such Act. No dividends shall
9 be paid on class A stock. Annually at the end of its fiscal
10 year each such bank shall determine the amount of its class
11 A stock which shall be retired. Whenever the total of the
12 capital stock, participation certificates, surplus, and reserves
13 of the bank is more than one-sixth of the highest month-end
14 balance of debentures and other obligations issued by or for
15 the bank, outstanding during the immediately preceding five
16 years, the minimum amount of class A stock to be retired
17 shall be the total amount of class B stock and participation
18 certificates issued for that year. All class A stock shall be
19 retired at par. The proceeds of such class A stock retire-
20 ments of each bank shall be paid into the Treasury as mis-
21 cellaneous receipts until there is so paid a sum equal to the
22 amount of class A stock of the bank issued in exchange for
23 stock of the production credit corporation. The proceeds of
24 any further such stock retirements shall be paid into the
25 revolving fund established by section 5 (e) of the Farm

1 Credit Act of 1933, as amended. The Governor of the
2 Farm Credit Administration is authorized to purchase from
3 time to time class A stock in any bank in such amount as he
4 determines is needed to meet the credit needs of the bank
5 and such revolving fund shall continue to be available for
6 such purchases as provided in said section 5 (e). The Gov-
7 ernor may at any time require the bank to retire such class
8 A stock if, in his judgment, the bank has resources avail-
9 able therefor, and the proceeds of such retirements shall be
10 returned to such revolving fund.

11 “(2) Class B stock shall have a par value of \$5 per
12 share and may be issued only to production credit associa-
13 tions in series and amounts approved by the Farm Credit
14 Administration. Such stock shall be issued only at par and
15 may be transferred to another production credit association
16 with the approval of the issuing bank. Whenever a bank
17 has no class A stock outstanding it may pay like dividends
18 on class B stock and participation certificates in an amount
19 not to exceed 5 per centum in any year if declared by the
20 board of directors. Dividends on class B stock and parti-
21 cipation certificates shall not be cumulative. Within sixty
22 days after the effective date of the Farm Credit Act of
23 1956, the production credit associations shall subscribe to
24 class B stock in the banks in an aggregate amount equal
25 to 15 per centum of the total amount of class A stock in

1 all banks. Such required amount of subscriptions shall be
2 allotted among the several districts in the proportion that
3 the average amount of the bank's loans to and discounts
4 for the production credit associations of the district, out-
5 standing during the immediately preceding five fiscal years,
6 is of the average of such loans and discounts of all banks
7 outstanding during such five-year period. The amount so
8 allotted to each district shall be further allotted to each pro-
9 duction credit association on the basis of the proportion that
10 its average indebtedness (loans and discounts) to the bank
11 during the immediately preceding five fiscal years is of
12 the average of such indebtedness of all production credit
13 associations to the bank during such five-year period. Each
14 production credit association shall subscribe to class B stock
15 in the bank of the district in the amount so allotted to it.
16 One-third of the purchase price of such stock subscription
17 shall be paid at the time of such subscription, one-third shall
18 be paid within one year after the effective date of said Act,
19 and the balance shall be paid within two years after such
20 effective date. Such class B stock shall be issued as pay-
21 ments therefor are made. Any production credit association
22 chartered after the effective date of the Farm Credit Act
23 of 1956 shall thereupon purchase class B stock in the bank
24 in the amount of \$5,000, and such amount shall be adjusted
25 at the end of five years thereafter to an amount determined

1 by applying to its average indebtedness to the bank during
2 such five-year period the same percentage as the percent-
3 age which the initial subscriptions of other production credit
4 associations was of their indebtedness, as provided in this
5 subsection: *Provided*, That this provision shall not apply
6 to any association owning stock in the bank in such required
7 amount as a result of merger, consolidation, or reorganiza-
8 tion of one or more associations. After all class A stock
9 has been retired, the bank may retire class B stock at par
10 and participation certificates at face amount under policies
11 established by the Farm Credit Administration. Class B
12 stock and participation certificates shall be retired without
13 preference and in such manner that the oldest outstanding
14 stock or certificates at any given time will be retired first.
15 In case of liquidation or dissolution of any production credit
16 association or other financing institution, the stock or par-
17 ticipation certificates of the bank owned by such associa-
18 tion or institution may be retired by the bank at the fair
19 book value thereof, not exceeding par or face amount, as
20 the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have
23 a first lien on all stock in the bank owned by each produc-
24 tion credit association and on all participation certificates
25 owned by other financing institutions as additional collateral

1 for any indebtedness of the holders thereof to the bank:
2 *Provided*, That the bank shall make no loan or advance
3 on the security of its own stock or participation certificates.
4 In any case where the debt of a production credit associa-
5 tion or other financing institution is in default, the bank
6 may retire and cancel all or a part of the stock of the bank
7 held by the association or of the participation certificates
8 held by the other financing institution at the fair book value
9 thereof, not exceeding par or face amount, as the case may
10 be, in total or partial liquidation of the debt."

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
12 as amended, is hereby amended to read as follows:

13 "APPLICATION OF EARNINGS

14 "SEC. 206. (a) ANNUAL APPLICATION.—At the end
15 of its fiscal year, each Federal intermediate credit bank shall
16 determine the amount of its net earnings after paying or
17 providing for all operating expenses (including reasonable
18 valuation reserves and losses in excess of any such applicable
19 reserves) and shall apply such net earnings as follows: (1)
20 To the restoration of the amount of the impairment, if any,
21 of capital stock and participation certificates, as determined
22 by its board of directors; (2) to the restoration of the
23 amount of the impairment, if any, of the surplus account
24 established by this subsection, as determined by its board of

1 directors; (3) 25 per centum of any remaining earnings
2 shall be used to create and maintain a reserve account equal
3 to 25 per centum of the outstanding capital stock and partici-
4 pation certificates of the bank; (4) if said bank shall have
5 outstanding capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay to
7 the United States as a franchise tax, a sum equal to 25 per
8 centum of its earnings then remaining, not exceeding, how-
9 ever, a rate of return on such Government capital calculated
10 at a rate equal to the computed average annual rate of inter-
11 est on all public issues of public debt obligations of the
12 United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsection
19 (b) of this section. Notwithstanding the provisions of item
20 (3) of this subsection, if at the end of any fiscal year the sum
21 of the surplus and the reserve account of any bank is less
22 than its outstanding capital stock and participation certifi-
23 cates, the bank shall continue to apply such 25 per centum of
24 its net earnings to the reserve account until the sum of the
25 surplus and the reserve account is equal to its outstanding

1 capital stock and participation certificates. Each bank shall,
2 on the effective date of the Farm Credit Act of 1956, estab-
3 lish a surplus account consisting of its earned surplus account,
4 its reserve for contingencies, and the surplus of the produc-
5 tion credit corporation transferred to the bank. No part of
6 such surplus of any bank shall be distributed as patronage
7 refunds. In the event of a net loss in any fiscal year after
8 providing for all operating expenses (including reasonable
9 valuation reserves and losses in excess of any such applicable
10 reserves), such loss shall be absorbed by: First, charges to the
11 reserve account; second, charges to surplus other than that
12 transferred from the production credit corporation of the
13 district; third, charges to surplus transferred from the pro-
14 duction credit corporation of the district; fourth, the impair-
15 ment of class B stock and participation certificates; and fifth,
16 the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end
18 of its fiscal year a Federal intermediate credit bank has
19 class A stock outstanding, patronage refunds declared for
20 that year shall be paid in class B stock to production credit
21 associations and in participation certificates to other financ-
22 ing institutions borrowing from or rediscounting with the
23 bank during the fiscal year for which such refunds are de-
24 clared. The recipients of such patronage refunds shall not be
25 subject to Federal income taxes thereon. Whenever at the

1 end of its fiscal year a Federal intermediate credit bank has
2 no class A stock outstanding, patronage refunds declared
3 for that year may be paid in such class B stock and par-
4 ticipation certificates or in cash as determined by the bank.
5 All patronage refunds shall be paid in the proportion that
6 the amount of interest earned by the bank on its loans to
7 and discounts for each production credit association or other
8 financing institution bears to the total interest earned by the
9 bank on all such loans and discounts outstanding during the
10 fiscal year. Each participation certificate issued in payment
11 of patronage refunds shall be in multiples of \$5 and shall
12 state on its face the rights, privileges, and conditions ap-
13 plicable thereto. Patronage refunds shall not be paid to any
14 other Federal intermediate credit bank, or to any Federal
15 land bank or bank for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after the payment or
19 retirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any sur-
22 plus established pursuant to subsection (a) of this section
23 shall be paid to the holders of class A and class B stock pro-
24 rata, and any remaining assets shall be distributed to the

1 holders of class B stock and the holders of participation cer-
2 tificates pro rata.”

3 SEC. 104. (a) Section 201 (b) of the Federal Farm
4 Loan Act, as amended, is hereby amended by adding at the
5 end thereof the following sentence: “The directors shall have
6 power, subject to the approval of the Farm Credit Adminis-
7 tration, to adopt such bylaws as may be necessary for the
8 conduct of the business of the banks.”

9 (b) Section 202 (a) of the Federal Farm Loan Act,
10 as amended, is hereby amended to read as follows:

11 “SEC. 202. (a) The Federal intermediate credit banks,
12 when chartered and established, shall have power, subject
13 solely to the restrictions, limitations, and conditions contained
14 in this Act or as may be prescribed by the Farm Credit Ad-
15 ministration not inconsistent with the provisions of this Act—

16 “(1) to discount for, or purchase from, any pro-
17 duction credit association organized under the Farm
18 Credit Act of 1933, as amended, with its endorsement,
19 any note, draft, or other such obligation presented by
20 such association; and to make loans and advances to any
21 such association secured by such collateral as may be
22 approved by the Governor of the Farm Credit Adminis-
23 tration;

24 “(2) to discount for, or purchase from, any national

1 bank, State bank, trust company, agricultural credit
 2 corporation, incorporated livestock loan company, sav-
 3 ings institution, credit union, and any association of agri-
 4 cultural producers engaged in the making of loans to
 5 farmers and ranchers, with its endorsement, any note,
 6 draft, or other such obligation the proceeds of which
 7 have been advanced or used in the first instance for
 8 any agricultural purpose, including the breeding, raising,
 9 fattening, or marketing of livestock; and to make loans
 10 and advances to any such financing institution secured
 11 by such collateral as may be approved by the Governor
 12 of the Farm Credit Administration: *Provided*, That no
 13 such loan or advance shall be made upon the security
 14 of collateral other than notes or other such obligations
 15 of farmers and ranchers eligible for discount or purchase
 16 under the provisions of this section, unless such loan or
 17 advance is made to enable the financing institution to
 18 make or carry loans for any agricultural purpose; and
 19 “(3) to make loans to and discount paper for any
 20 other Federal intermediate credit bank, any Federal
 21 land bank, or any bank for cooperatives organized under
 22 the Farm Credit Act of 1933, as amended, all upon
 23 terms and at rates of interest or discount approved by
 24 the Farm Credit Administration.”

1 (c) Section 202 (c) of the Federal Farm Loan Act,
2 as amended, is amended by changing the word "three" to
3 the word "seven".

4 (d) Section 204 (a) of the Federal Farm Loan Act,
5 as amended, is amended to read as follows:

6 "SEC. 204. (a) Loans and discounts by any Federal
7 intermediate credit bank shall bear such rates of interest
8 for discount as the board of directors of the bank shall from
9 time to time determine with the approval of the Farm Credit
10 Administration, but the rates charged financing institutions
11 other than production credit associations shall be the same
12 as those charged production credit associations."

13 (e) Section 204 (b) of the Federal Farm Loan Act
14 is hereby repealed.

15 (f) Section 13 of the Federal Farm Loan Act, as
16 amended, is hereby amended by inserting in paragraph "Sev-
17 enteenth", after the words "Federal land banks", a comma
18 and the words "to Federal intermediate credit banks, or
19 to banks for cooperatives organized under the Farm Credit
20 Act of 1933, as amended,".

21 SEC. 105. (a) Section 2 of the Farm Credit Act of
22 1933, as amended, is amended to read as follows:

23 "SEC. 2. The Governor of the Farm Credit Administra-
24 tion, hereinafter in this Act referred to as the 'Governor',

1 is authorized and directed to organize and charter twelve
2 banks to be known as 'banks for cooperatives'. One such
3 bank shall be established in each city in which there is
4 located a Federal land bank. The members of the several
5 farm credit boards of the farm credit districts provided for
6 in section 5 of the Farm Credit Act of 1937, as amended,
7 shall be ex officio the directors of the respective banks
8 for cooperatives. Such directors shall have power, subject
9 to the approval of the Governor, to employ and fix the com-
10 pensation of such officers and employees of such banks as
11 may be necessary to carry out the powers and duties con-
12 ferred upon such banks under this Act."

13 (b) Section 3 of the Farm Credit Act of 1933 is
14 amended by striking from the first sentence the words "the
15 production credit corporations and" and by striking from
16 the second sentence the words "corporations and".

17 (c) Section 4 of the Farm Credit Act of 1933 is hereby
18 repealed.

19 (d) Section 5 of the Farm Credit Act of 1933, as
20 amended, is amended (1) by changing "\$120,000,000"
21 in subsection (a) thereof to "\$60,000,000"; (2) by strik-
22 ing from subsection (b) thereof the words "the production
23 credit corporations and"; (3) by changing "\$40,000,000"
24 in subsection (e) thereof to "\$100,000,000"; and (4) by

1 striking from subsection (c) thereof the words "and/or
2 paid-in surplus".

3 (e) Section 6 of the Farm Credit Act of 1933, as
4 amended, is amended to read as follows:

5 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION

6 CREDIT ASSOCIATIONS

7 "SEC. 6. The Governor may purchase class A stock of
8 any production credit association in such amounts as he
9 determines are required to meet the credit needs of farmers
10 in the area served by such association. Payments for such
11 stock purchased by the Governor shall be made out of the
12 revolving fund authorized by section 5 (a) of this Act and
13 such stock shall be held by him on behalf of the United
14 States. The Governor may at any time require any pro-
15 duction credit association to retire and cancel any class A
16 stock held by him in such association if, in his judgment,
17 the association has resources available therefor, and the
18 proceeds of such stock retirements shall be paid into such
19 revolving fund."

20 (f) Section 20 of the Farm Credit Act of 1933 is
21 amended by changing the fourth sentence to read as follows:

22 "Such articles shall be signed by the individuals uniting
23 to form the association and a copy thereof shall be furnished
24 to the Governor."

1 (g) Section 21 of the Farm Credit Act of 1933, as
2 amended, is amended (1) by striking from the first sentence
3 the words "production credit corporations" and substituting
4 in lieu thereof the words "the Governor"; and (2) by
5 deleting the last sentence thereof.

6 (h) Section 22 of the Farm Credit Act of 1933, as
7 amended, is amended by striking out the words "produc-
8 tion credit corporation", wherever they appear therein, and
9 substituting in lieu thereof "Federal intermediate credit
10 bank".

11 (i) Section 23 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by changing the first sentence
13 to read as follows: "Each production credit association shall,
14 under such rules and regulations as may be prescribed by
15 the farm credit board of the district with the approval of
16 the Farm Credit Administration, invest its funds and make
17 loans to farmers for general agricultural purposes and other
18 requirements of the borrowers"; (2) by deleting the second
19 sentence; (3) by striking from the third sentence the
20 word "corporation" and inserting in lieu thereof the words
21 "Federal intermediate credit bank"; and (4) by changing
22 the period at the end of next to the last sentence to a colon
23 and adding the following: "*Provided*, That an association
24 may, under rules and regulations issued by the Farm Credit
25 Administration, make loans to any class B stockholder

1 secured by warehouse receipts covering agricultural com-
2 modities stored in bonded warehouses without the purchase
3 of additional class B stock.”

4 (j) Section 34 of the Farm Credit Act of 1933, as
5 amended, is hereby amended by adding before the semi-
6 colon at the end of “(b)” the words “or to Federal land
7 banks or Federal intermediate credit banks”.

8 (k) Section 41 of the Farm Credit Act of 1933, as
9 amended, is hereby amended by adding before the semi-
10 colon at the end of “(b)” the words “or to Federal land
11 banks or Federal intermediate credit banks”.

12 (l) Section 60 of the Farm Credit Act of 1933, as
13 amended, is amended (1) by striking from the first sen-
14 tence the words “the production credit corporations,”; (2)
15 by striking from the second sentence the words “associa-
16 tion, or corporation” and substituting in lieu thereof the
17 words “or association”; and (3) by striking from the third
18 sentence the words “production credit corporation or”, “or
19 corporation”, and “corporation or”, wherever they appear
20 therein.

21 (m) Section 61 of the Farm Credit Act of 1933 is
22 amended (1) by striking from the first sentence the words
23 “production credit corporation,”; and (2) by striking from
24 the second and third sentences the words “association, or

1 corporation", wherever they appear therein, and substitut-
2 ing in lieu thereof the words "or association".

3 (n) Section 62 of the Farm Credit Act of 1933, as
4 amended, is amended by striking out the words "production
5 credit corporations,".

6 (o) Section 63 of the Farm Credit Act of 1933, as
7 amended, is amended (1) by striking from the first sen-
8 tence the words "the production credit corporations,";
9 (2) by striking from the first and second sentences the
10 words "associations, or corporations" and "associations, and
11 corporations," and substituting in lieu thereof the words
12 "or associations" and "and associations," respectively; and
13 (3) by changing the last sentence to read as follows: "The
14 exemption provided herein shall not apply with respect to
15 any production credit association or its property or income
16 after the class A stock held in it by the Governor has been
17 retired, or with respect to any bank for cooperatives or its
18 property or income after the stock held in it by the United
19 States has been retired."

20 (p) Section 65 of the Farm Credit Act of 1933, as
21 amended, is amended (1) by striking out the words "pro-
22 duction credit corporation,"; and (2) by striking out the
23 words "association or corporation", wherever they appear
24 therein, and substituting in lieu thereof the words "or asso-
25 ciation".

1 (q) Section 86a of the Farm Credit Act of 1933 is
2 hereby repealed.

3 SEC. 106. (a) Section 5 of the Farm Credit Act of
4 1937, as amended, is amended (1) by striking from sub-
5 section (d) (2) (B) the words "production credit corpora-
6 tion of the district" and substituting in lieu thereof the
7 words "Governor of the Farm Credit Administration"; and
8 (2) by striking from subsection (h) the words "produc-
9 tion credit corporation,".

10 (b) Section 6 of the Farm Credit Act of 1937 is
11 amended (1) by striking from the first sentence of subsec-
12 tion (a) the words "production credit corporation,"; (2)
13 by striking from the third sentence of subsection (a) the
14 word "three"; (3) by striking from the first sentence of
15 subsection (b) the words "the bank for cooperatives, and
16 the production credit corporation" and substituting in lieu
17 thereof the words "and the bank for cooperatives"; and (4)
18 by striking from the last sentence of subsection (b) the
19 words "production credit corporation,".

20 SEC. 107. (a) Section 8 of the Farm Credit Act of
21 1953 is amended by striking out the words "production
22 credit corporation", wherever they appear therein, and sub-
23 stituting in lieu thereof the words "Federal intermediate
24 credit bank".

1 (b) Subsection (a) of section 16 of the Farm Credit
 2 Act of 1953 is amended to read as follows:
 3 “(a) Any other provisions of law to the contrary not-
 4 withstanding, after the effective date of this Act any produc-
 5 tion credit association may, with the approval of the Farm
 6 Credit Administration, issue nonvoting preferred stock, to
 7 be known as class C stock, which may be purchased and held
 8 by the Governor of the Farm Credit Administration and by
 9 investors: *Provided*, That the issuance of such stock shall be
 10 authorized by vote of not less than two-thirds of the out-
 11 standing shares of class A stock of the association (other
 12 than shares held by the Governor of the Farm Credit Ad-
 13 ministration) by the holders thereof in person or by proxy
 14 and by vote of not less than two-thirds of the outstanding
 15 shares of class B stock of the association by the holders
 16 thereof in person or by proxy; and for this purpose holders
 17 of class A stock (other than the Governor of the Farm
 18 Credit Administration) and holders of class B stock shall be
 19 entitled to one vote for each share of stock held by them.
 20 Payments for such stock purchased by the Governor shall
 21 be made out of the revolving fund created by section 5 (a)
 22 of the Farm Credit Act of 1933, as amended, and the pro-
 23 ceeds from the retirement of any such stock shall be paid
 24 into such revolving fund.”

25 SEC. 108. Section 601 of the Department of Agriculture

1 Organic Act of 1944, as amended, is hereby amended (1) by
 2 striking from subsection (a) the words "production credit
 3 corporations," wherever they appear therein, and the word
 4 "corporations,"; (2) by striking from subsection (b) the
 5 words "the Federal intermediate credit banks, and the pro-
 6 duction credit corporations" and substituting in lieu thereof
 7 the words "and the Federal intermediate credit banks"; and
 8 (3) by striking from subsections (b) and (c) the words
 9 "and corporation", "and corporations", and "corporation,"
 10 wherever they appear therein.

11 SEC. 109. Sections 658 and 1014 of title 18, United
 12 States Code, are hereby amended by striking from each such
 13 section the words "or in which a production credit corpora-
 14 tion holds stock".

15 TITLE II—MISCELLANEOUS PROVISIONS

16 SEC. 201. (a) The Government Corporation Control
 17 Act, as amended, is amended (1) by striking from section
 18 101 the words "Federal Intermediate Credit Banks; Produc-
 19 tion Credit Corporations,"; (2) by inserting in section 201
 20 immediately following "(3)" the words "Federal Inter-
 21 mediate Credit Banks, (4)"; (3) by changing "(4)" in
 22 section 201 to "(5)"; and (4) by striking from sections
 23 302 and 303 the words "production credit corporations,".

24 (b) After the effective date of this Act, the Federal
 25 intermediate credit banks may utilize their funds for adminis-

1 trative expenses without regard to the limitations contained
2 in any other Act of Congress governing the expenditure of
3 appropriated funds.

4 (c) Paragraph Seventh of section 5136 of the Revised
5 Statutes as amended, is amended (1) by inserting in next
6 to the last sentence immediately before the words "Federal
7 Home Loan Banks", the words "thirteen banks for coopera-
8 tives or any of them or the"; and (2) by changing the last
9 sentence to read as follows: "The limitations and restrictions
10 herein contained as to dealing in and underwriting investment
11 securities shall not apply to obligations issued by the Inter-
12 national Bank for Reconstruction and Development which
13 are at the time eligible for purchase by a national bank for
14 its own account: *Provided*, That no association shall hold
15 obligations issued by said bank as a result of underwriting,
16 dealing, or purchasing for its own account (and for this pur-
17 pose obligations as to which it is under commitment shall be
18 deemed to be held by it) in a total amount exceeding at any
19 one time 10 per centum of its capital stock actually paid in
20 and unimpaired and 10 per centum of its unimpaired surplus
21 fund."

22 SEC. 202. (a) This Act shall become effective on Janu-
23 ary 1 next following its enactment.

24 (b) For purposes of applying the amendment in section
25 103 of this Act, that part of the fiscal year 1957 preceding

1 the effective date of this Act shall be deemed to be a separate
2 fiscal year.

3 SEC. 203. (a) If any provision of this Act, or the appli-
4 cation thereof to any person or circumstance, is held invalid,
5 the remainder of the Act, and the application of such pro-
6 visions to other persons or circumstances, shall not be affected
7 thereby.

8 (b) The right to alter, amend, or repeal this Act is
9 hereby expressly reserved.

84TH CONGRESS
2D SESSION

H. R. 10286

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. HOPE

MARCH 29, 1956

Referred to the Committee on Agriculture

84TH CONGRESS
2D SESSION

H. R. 10315

IN THE HOUSE OF REPRESENTATIVES

MARCH 29, 1956

Mr. POAGE introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATON OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculturre with a sound, dependable,
8 and effective source of credit; to promote the efficiency of

1 the farm credit system by merging production credit cor-
2 porations in Federal intermediate credit banks and to facili-
3 tate farmer ownership of the merged banks and retirement
4 of Government capital therein; to encourage and promote
5 the continued growth and development of the production
6 credit associations as self-supporting cooperative lending in-
7 stitutions operating on a sound credit basis with maximum
8 local authority to determine credit needs and loan policies
9 consistent with the maintenance of a national production
10 credit system; and to continue to provide other financing
11 institutions making loans to farmers and ranchers with the
12 right to borrow from and rediscount with such merged banks
13 on a basis comparable with the production credit associations
14 regardless of the ownership of such banks. The provisions
15 of this Act shall be construed in keeping with this declaration
16 of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
20 TRANSFER OF ASSETS.—The production credit corporation
21 in each farm credit district is hereby merged in the Federal
22 intermediate credit bank of the district and all assets, funds,
23 contracts, property, and records belonging to such corpora-
24 tion, except stock in production credit associations, are hereby
25 transferred to and vested in such bank. All obligations

1 and liabilities of the production credit corporation shall be
2 assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration to be held by him
6 on behalf of the United States, and the Governor shall cancel
7 an equal par amount of stock of the corporation.

8 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
9 CREDIT ASSOCIATIONS.—In order to carry out the declared
10 policy of this Act with respect to the production credit
11 associations, the Farm Credit Administration shall, by
12 appropriate provisions in the charter and bylaws, or
13 otherwise, provide for such organization and assignment
14 of functions within the Federal intermediate credit banks as
15 will assure proper supervision of and assistance to the
16 production credit associations in a manner which will enable
17 them to make sound credit available to farmers and ranchers.
18 The income derived from the surplus transferred from the
19 production credit corporation to the Federal intermediate
20 credit bank of the district shall be used to pay expenses of
21 the bank in providing such supervision and assistance, and
22 expenses in excess of such income may be paid out of other
23 resources of the bank.

24 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
25 other provision of law, the employment of the officers and

1 employees of each Federal intermediate credit bank and
2 each production credit corporation is terminated on the effec-
3 tive date of this Act and the board of directors of the Federal
4 intermediate credit bank shall, not later than sixty days prior
5 to the effective date of this Act, take all necessary action to
6 reemploy as of such effective date such of the officers and
7 employees so terminated in such capacities as the board
8 determines they are qualified and needed to carry out the
9 functions, powers, and duties of the Federal intermediate
10 credit bank. Such reemployment shall be subject to the
11 approval of the Farm Credit Administration.

12 SEC. 102. Section 205 of the Federal Farm Loan Act,
13 as amended, is amended to read as follows:

14 "CAPITAL STOCK

15 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
16 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
17 intermediate credit bank is authorized to issue class A and
18 class B stock as follows:

19 "(1) Class A stock shall have a par value of \$100 per
20 share and shall be issued to and held by the Governor of the
21 Farm Credit Administration on behalf of the United States.
22 Stock of all Federal intermediate credit banks held by the
23 Secretary of the Treasury shall be transferred to the Gover-
24 nor and may be reallocated by him in such manner as he
25 determines necessary to meet the needs of the respective

1 banks. The Governor shall then exchange such stock of
2 each bank for an equal par amount of class A stock of the
3 bank. Stock of each production credit corporation held by
4 the Governor (less the amount canceled pursuant to section
5 101 of the Farm Credit Act of 1956) shall be exchanged
6 for an equal par amount of class A stock of the Federal in-
7 termediate credit bank in which such corporation is merged
8 pursuant to section 101 of such Act. No dividends shall
9 be paid on class A stock. Annually at the end of its fiscal
10 year each such bank shall determine the amount of its class
11 A stock which shall be retired. Whenever the total of the
12 capital stock, participation certificates, surplus, and reserves
13 of the bank is more than one-sixth of the highest month-end
14 balance of debentures and other obligations issued by or for
15 the bank, outstanding during the immediately preceding five
16 years, the minimum amount of class A stock to be retired
17 shall be the total amount of class B stock and participation
18 certificates issued for that year. All class A stock shall be
19 retired at par. The proceeds of such class A stock retire-
20 ments of each bank shall be paid into the Treasury as mis-
21 cellaneous receipts until there is so paid a sum equal to the
22 amount of class A stock of the bank issued in exchange for
23 stock of the production credit corporation. The proceeds of
24 any further such stock retirements shall be paid into the
25 revolving fund established by section 5 (e) of the Farm

1 Credit Act of 1933, as amended. The Governor of the
2 Farm Credit Administration is authorized to purchase from
3 time to time class A stock in any bank in such amount as he
4 determines is needed to meet the credit needs of the bank
5 and such revolving fund shall continue to be available for
6 such purchases as provided in said section 5 (e). The Gov-
7 ernor may at any time require the bank to retire such class
8 A stock if, in his judgment, the bank has resources avail-
9 able therefor, and the proceeds of such retirements shall be
10 returned to such revolving fund.

11 “(2) Class B stock shall have a par value of \$5 per
12 share and may be issued only to production credit associa-
13 tions in series and amounts approved by the Farm Credit
14 Administration. Such stock shall be issued only at par and
15 may be transferred to another production credit association
16 with the approval of the issuing bank. Whenever a bank
17 has no class A stock outstanding it may pay like dividends
18 on class B stock and participation certificates in an amount
19 not to exceed 5 per centum in any year if declared by the
20 board of directors. Dividends on class B stock and parti-
21 cipation certificates shall not be cumulative. Within sixty
22 days after the effective date of the Farm Credit Act of
23 1956, the production credit associations shall subscribe to
24 class B stock in the banks in an aggregate amount equal
25 to 15 per centum of the total amount of class A stock in

1 all banks. Such required amount of subscriptions shall be
2 allotted among the several districts in the proportion that
3 the average amount of the bank's loans to and discounts
4 for the production credit associations of the district, out-
5 standing during the immediately preceding five fiscal years,
6 is of the average of such loans and discounts of all banks
7 outstanding during such five-year period. The amount so
8 allotted to each district shall be further allotted to each pro-
9 duction credit association on the basis of the proportion that
10 its average indebtedness (loans and discounts) to the bank
11 during the immediately preceding five fiscal years is of
12 the average of such indebtedness of all production credit
13 associations to the bank during such five-year period. Each
14 production credit association shall subscribe to class B stock
15 in the bank of the district in the amount so allotted to it.
16 One-third of the purchase price of such stock subscription
17 shall be paid at the time of such subscription, one-third shall
18 be paid within one year after the effective date of said Act.
19 and the balance shall be paid within two years after such
20 effective date. Such class B stock shall be issued as pay-
21 ments therefor are made. Any production credit association
22 chartered after the effective date of the Farm Credit Act
23 of 1956 shall thereupon purchase class B stock in the bank
24 in the amount of \$5,000, and such amount shall be adjusted
25 at the end of five years thereafter to an amount determined

1 by applying to its average indebtedness to the bank during
2 such five-year period the same percentage as the percent-
3 age which the initial subscriptions of other production credit
4 associations was of their indebtedness, as provided in this
5 subsection: *Provided*, That this provision shall not apply
6 to any association owning stock in the bank in such required
7 amount as a result of merger, consolidation, or reorganiza-
8 tion of one or more associations. After all class A stock
9 has been retired, the bank may retire class B stock at par
10 and participation certificates at face amount under policies
11 established by the Farm Credit Administration. Class B
12 stock and participation certificates shall be retired without
13 preference and in such manner that the oldest outstanding
14 stock or certificates at any given time will be retired first.
15 In case of liquidation or dissolution of any production credit
16 association or other financing institution, the stock or par-
17 ticipation certificates of the bank owned by such associa-
18 tion or institution may be retired by the bank at the fair
19 book value thereof, not exceeding par or face amount, as
20 the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have
23 a first lien on all stock in the bank owned by each produc-
24 tion credit association and on all participation certificates
25 owned by other financing institutions as additional collateral

1 for any indebtedness of the holders thereof to the bank:
2 *Provided*, That the bank shall make no loan or advance
3 on the security of its own stock or participation certificates.
4 In any case where the debt of a production credit associa-
5 tion or other financing institution is in default, the bank
6 may retire and cancel all or a part of the stock of the bank
7 held by the association or of the participation certificates
8 held by the other financing institution at the fair book value
9 thereof, not exceeding par or face amount, as the case may
10 be, in total or partial liquidation of the debt.”

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
12 as amended, is hereby amended to read as follows:

13 “APPLICATION OF EARNINGS

14 “SEC. 206. (a) ANNUAL APPLICATION.—At the end
15 of its fiscal year, each Federal intermediate credit bank shall
16 determine the amount of its net earnings after paying or
17 providing for all operating expenses (including reasonable
18 valuation reserves and losses in excess of any such applicable
19 reserves) and shall apply such net earnings as follows: (1)
20 To the restoration of the amount of the impairment, if any,
21 of capital stock and participation certificates, as determined
22 by its board of directors; (2) to the restoration of the
23 amount of the impairment, if any, of the surplus account
24 established by this subsection, as determined by its board of

1 directors; (3) 25 per centum of any remaining earnings
2 shall be used to create and maintain a reserve account equal
3 to 25 per centum of the outstanding capital stock and partici-
4 pation certificates of the bank; (4) if said bank shall have
5 outstanding capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay to
7 the United States as a franchise tax, a sum equal to 25 per
8 centum of its earnings then remaining, not exceeding, how-
9 ever, a rate of return on such Government capital calculated
10 at a rate equal to the computed average annual rate of inter-
11 est on all public issues of public debt obligations of the
12 United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsection
19 (b) of this section. Notwithstanding the provisions of item
20 (3) of this subsection, if at the end of any fiscal year the sum
21 of the surplus and the reserve account of any bank is less
22 than its outstanding capital stock and participation certifi-
23 cates, the bank shall continue to apply such 25 per centum of
24 its net earnings to the reserve account until the sum of the
25 surplus and the reserve account is equal to its outstanding

1 capital stock and participation certificates. Each bank shall,
2 on the effective date of the Farm Credit Act of 1956, estab-
3 lish a surplus account consisting of its earned surplus account,
4 its reserve for contingencies, and the surplus of the produc-
5 tion credit corporation transferred to the bank. No part of
6 such surplus of any bank shall be distributed as patronage
7 refunds. In the event of a net loss in any fiscal year after
8 providing for all operating expenses (including reasonable
9 valuation reserves and losses in excess of any such applicable
10 reserves), such loss shall be absorbed by: First, charges to the
11 reserve account; second, charges to surplus other than that
12 transferred from the production credit corporation of the
13 district; third, charges to surplus transferred from the pro-
14 duction credit corporation of the district; fourth, the impair-
15 ment of class B stock and participation certificates; and fifth,
16 the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end
18 of its fiscal year a Federal intermediate credit bank has
19 class A stock outstanding, patronage refunds declared for
20 that year shall be paid in class B stock to production credit
21 associations and in participation certificates to other financ-
22 ing institutions borrowing from or rediscounting with the
23 bank during the fiscal year for which such refunds are de-
24 clared. The recipients of such patronage refunds shall not be
25 subject to Federal income taxes thereon. Whenever at the

1 end of its fiscal year a Federal intermediate credit bank has
2 no class A stock outstanding, patronage refunds declared
3 for that year may be paid in such class B stock and par-
4 ticipation certificates or in cash as determined by the bank.
5 All patronage refunds shall be paid in the proportion that
6 the amount of interest earned by the bank on its loans to
7 and discounts for each production credit association or other
8 financing institution bears to the total interest earned by the
9 bank on all such loans and discounts outstanding during the
10 fiscal year. Each participation certificate issued in payment
11 of patronage refunds shall be in multiples of \$5 and shall
12 state on its face the rights, privileges, and conditions ap-
13 plicable thereto. Patronage refunds shall not be paid to any
14 other Federal intermediate credit bank, or to any Federal
15 land bank or bank for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after the payment or
19 retirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any sur-
22 plus established pursuant to subsection (a) of this section
23 shall be paid to the holders of class A and class B stock pro-
24 rata, and any remaining assets shall be distributed to the

1 holders of class B stock and the holders of participation cer-
2 tificates pro rata.”

3 SEC. 104. (a) Section 201 (b) of the Federal Farm
4 Loan Act, as amended, is hereby amended by adding at the
5 end thereof the following sentence: “The directors shall have
6 power, subject to the approval of the Farm Credit Adminis-
7 tration, to adopt such bylaws as may be necessary for the
8 conduct of the business of the banks.”

9 (b) Section 202 (a) of the Federal Farm Loan Act,
10 as amended, is hereby amended to read as follows:

11 “SEC. 202. (a) The Federal intermediate credit banks,
12 when chartered and established, shall have power, subject
13 solely to the restrictions, limitations, and conditions contained
14 in this Act or as may be prescribed by the Farm Credit Ad-
15 ministration not inconsistent with the provisions of this Act—

16 “(1) to discount for, or purchase from, any pro-
17 duction credit association organized under the Farm
18 Credit Act of 1933, as amended, with its endorsement,
19 any note, draft, or other such obligation presented by
20 such association; and to make loans and advances to any
21 such association secured by such collateral as may be
22 approved by the Governor of the Farm Credit Adminis-
23 tration;

24 “(2) to discount for, or purchase from, any national

1 bank, State bank, trust company, agricultural credit
2 corporation, incorporated livestock loan company, sav-
3 ings institution, credit union, and any association of agri-
4 cultural producers engaged in the making of loans to
5 farmers and ranchers, with its endorsement, any note,
6 draft, or other such obligation the proceeds of which
7 have been advanced or used in the first instance for
8 any agricultural purpose, including the breeding, raising,
9 fattening, or marketing of livestock; and to make loans
10 and advances to any such financing institution secured
11 by such collateral as may be approved by the Governor
12 of the Farm Credit Administration: *Provided*, That no
13 such loan or advance shall be made upon the security
14 of collateral other than notes or other such obligations
15 of farmers and ranchers eligible for discount or purchase
16 under the provisions of this section, unless such loan or
17 advance is made to enable the financing institution to
18 make or carry loans for any agricultural purpose; and
19 “(3) to make loans to and discount paper for any
20 other Federal intermediate credit bank, any Federal
21 land bank, or any bank for cooperatives organized under
22 the Farm Credit Act of 1933, as amended, all upon
23 terms and at rates of interest or discount approved by
24 the Farm Credit Administration.”

1 (c) Section 202 (c) of the Federal Farm Loan Act,
2 as amended, is amended by changing the word "three" to
3 the word "seven".

4 (d) Section 204 (a) of the Federal Farm Loan Act,
5 as amended, is amended to read as follows:

6 "SEC. 204. (a) Loans and discounts by any Federal
7 intermediate credit bank shall bear such rates of interest
8 or discount as the board of directors of the bank shall from
9 time to time determine with the approval of the Farm Credit
10 Administration, but the rates charged financing institutions
11 other than production credit associations shall be the same
12 as those charged production credit associations."

13 (e) Section 204 (b) of the Federal Farm Loan Act
14 is hereby repealed.

15 (f) Section 13 of the Federal Farm Loan Act, as
16 amended, is hereby amended by inserting in paragraph "Sev-
17 enteenth", after the words "Federal land banks", a comma
18 and the words "to Federal intermediate credit banks, or
19 to banks for cooperatives organized under the Farm Credit
20 Act of 1933, as amended,".

21 SEC. 105. (a) Section 2 of the Farm Credit Act of
22 1933, as amended, is amended to read as follows:

23 "SEC. 2. The Governor of the Farm Credit Administra-
24 tion, hereinafter in this Act referred to as the 'Governor',

1 is authorized and directed to organize and charter twelve
2 banks to be known as 'banks for cooperatives'. One such
3 bank shall be established in each city in which there is
4 located a Federal land bank. The members of the several
5 farm credit boards of the farm credit districts provided for
6 in section 5 of the Farm Credit Act of 1937, as amended,
7 shall be ex officio the directors of the respective banks
8 for cooperatives. Such directors shall have power, subject
9 to the approval of the Governor, to employ and fix the com-
10 pensation of such officers and employees of such banks as
11 may be necessary to carry out the powers and duties con-
12 ferred upon such banks under this Act."

13 (b) Section 3 of the Farm Credit Act of 1933 is
14 amended by striking from the first sentence the words "the
15 production credit corporations and" and by striking from
16 the second sentence the words "corporations and".

17 (c) Section 4 of the Farm Credit Act of 1933 is hereby
18 repealed.

19 (d) Section 5 of the Farm Credit Act of 1933, as
20 amended, is amended (1) by changing "\$120,000,000"
21 in subsection (a) thereof to "\$60,000,000"; (2) by strik-
22 ing from subsection (b) thereof the words "the production
23 credit corporations and"; (3) by changing "\$40,000,000"
24 in subsection (e) thereof to "\$100,000,000"; and (4) by

1 striking from subsection (e) thereof the words "and/or
2 paid-in surplus".

3 (e) Section 6 of the Farm Credit Act of 1933, as
4 amended, is amended to read as follows:

5 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION

6 CREDIT ASSOCIATIONS

7 "SEC. 6. The Governor may purchase class A stock of
8 any production credit association in such amounts as he
9 determines are required to meet the credit needs of farmers
10 in the area served by such association. Payments for such
11 stock purchased by the Governor shall be made out of the
12 revolving fund authorized by section 5 (a) of this Act and
13 such stock shall be held by him on behalf of the United
14 States. The Governor may at any time require any pro-
15 duction credit association to retire and cancel any class A
16 stock held by him in such association if, in his judgment,
17 the association has resources available therefor, and the
18 proceeds of such stock retirements shall be paid into such
19 revolving fund."

20 (f) Section 20 of the Farm Credit Act of 1933 is
21 amended by changing the fourth sentence to read as follows:
22 "Such articles shall be signed by the individuals uniting
23 to form the association and a copy thereof shall be furnished
24 to the Governor."

1 (g) Section 21 of the Farm Credit Act of 1933, as
2 amended, is amended (1) by striking from the first sentence
3 the words "production credit corporations" and substituting
4 in lieu thereof the words "the Governor"; and (2) by
5 deleting the last sentence thereof.

6 (h) Section 22 of the Farm Credit Act of 1933, as
7 amended, is amended by striking out the words "produc-
8 tion credit corporation", wherever they appear therein, and
9 substituting in lieu thereof "Federal intermediate credit
10 bank".

11 (i) Section 23 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by changing the first sentence
13 to read as follows: "Each production credit association shall,
14 under such rules and regulations as may be prescribed by
15 the farm credit board of the district with the approval of
16 the Farm Credit Administration, invest its funds and make
17 loans to farmers for general agricultural purposes and other
18 requirements of the borrowers"; (2) by deleting the second
19 sentence; (3) by striking from the third sentence the
20 word "corporation" and inserting in lieu thereof the words
21 "Federal intermediate credit bank"; and (4) by changing
22 the period at the end of next to the last sentence to a colon
23 and adding the following: "*Provided*, That an association
24 may, under rules and regulations issued by the Farm Credit
25 Administration, make loans to any class B stockholder

1 secured by warehouse receipts covering agricultural com-
2 modities stored in bonded warehouses without the purchase
3 of additional class B stock.”

4 (j) Section 34 of the Farm Credit Act of 1933, as
5 amended, is hereby amended by adding before the semi-
6 colon at the end of “(b)” the words “or to Federal land
7 banks or Federal intermediate credit banks”.

8 (k) Section 41 of the Farm Credit Act of 1933, as
9 amended, is hereby amended by adding before the semi-
10 colon at the end of “(b)” the words “or to Federal land
11 banks or Federal intermediate credit banks”.

12 (l) Section 60 of the Farm Credit Act of 1933, as
13 amended, is amended (1) by striking from the first sen-
14 tence the words “the production credit corporations,”; (2)
15 by striking from the second sentence the words “associa-
16 tion, or corporation” and substituting in lieu thereof the
17 words “or association”; and (3) by striking from the third
18 sentence the words “production credit corporation or”, “or
19 corporation”, and “corporation or”, wherever they appear
20 therein.

21 (m) Section 61 of the Farm Credit Act of 1933 is
22 amended (1) by striking from the first sentence the words
23 “production credit corporation,”; and (2) by striking from
24 the second and third sentences the words “association, or

1 corporation", wherever they appear therein, and substitut-
2 ing in lieu thereof the words "or association".

3 (n) Section 62 of the Farm Credit Act of 1933, as
4 amended, is amended by striking out the words "production
5 credit corporations,".

6 (o) Section 63 of the Farm Credit Act of 1933, as
7 amended, is amended (1) by striking from the first sen-
8 tence the words "the production credit corporations,";
9 (2) by striking from the first and second sentences the
10 words "associations, or corporations" and "associations, and
11 corporations," and substituting in lieu thereof the words
12 "or associations" and "and associations," respectively; and
13 (3) by changing the last sentence to read as follows: "The
14 exemption provided herein shall not apply with respect to
15 any production credit association or its property or income
16 after the class A stock held in it by the Governor has been
17 retired, or with respect to any bank for cooperatives or its
18 property or income after the stock held in it by the United
19 States has been retired."

20 (p) Section 65 of the Farm Credit Act of 1933, as
21 amended, is amended (1) by striking out the words "pro-
22 duction credit corporation,"; and (2) by striking out the
23 words "association or corporation", wherever they appear
24 therein, and substituting in lieu thereof the words "or asso-
25 ciation".

1 (q) Section 86a of the Farm Credit Act of 1933 is
2 hereby repealed.

3 SEC. 106. (a) Section 5 of the Farm Credit Act of
4 1937, as amended, is amended (1) by striking from sub-
5 section (d) (2) (B) the words "production credit corpora-
6 tion of the district" and substituting in lieu thereof the
7 words "Governor of the Farm Credit Administration"; and
8 (2) by striking from subsection (h) the words "produc-
9 tion credit corporation,".

10 (b) Section 6 of the Farm Credit Act of 1937 is
11 amended (1) by striking from the first sentence of subsec-
12 tion (a) the words "production credit corporation,"; (2)
13 by striking from the third sentence of subsection (a) the
14 word "three"; (3) by striking from the first sentence of
15 subsection (b) the words "the bank for cooperatives, and
16 the production credit corporation" and substituting in lieu
17 thereof the words "and the bank for cooperatives"; and (4)
18 by striking from the last sentence of subsection (b) the
19 words "production credit corporation,".

20 SEC. 107. (a) Section 8 of the Farm Credit Act of
21 1953 is amended by striking out the words "production
22 credit corporation", wherever they appear therein, and sub-
23 stituting in lieu thereof the words "Federal intermediate
24 credit bank".

1 (b) Subsection (a) of section 16 of the Farm Credit
2 Act of 1953 is amended to read as follows:

3 “(a) Any other provisions of law to the contrary not-
4 withstanding, after the effective date of this Act any produc-
5 tion credit association may, with the approval of the Farm
6 Credit Administration, issue nonvoting preferred stock, to
7 be known as class C stock, which may be purchased and held
8 by the Governor of the Farm Credit Administration and by
9 investors: *Provided*, That the issuance of such stock shall be
10 authorized by vote of not less than two-thirds of the out-
11 standing shares of class A stock of the association (other
12 than shares held by the Governor of the Farm Credit Ad-
13 ministration) by the holders thereof in person or by proxy
14 and by vote of not less than two-thirds of the outstanding
15 shares of class B stock of the association by the holders
16 thereof in person or by proxy; and for this purpose holders
17 of class A stock (other than the Governor of the Farm
18 Credit Administration) and holders of class B stock shall be
19 entitled to one vote for each share of stock held by them.
20 Payments for such stock purchased by the Governor shall
21 be made out of the revolving fund created by section 5 (a)
22 of the Farm Credit Act of 1933, as amended, and the pro-
23 ceeds from the retirement of any such stock shall be paid
24 into such revolving fund.”

25 SEC. 108. Section 601 of the Department of Agriculture

1 Organic Act of 1944, as amended, is hereby amended (1) by
2 striking from subsection (a) the words "production credit
3 corporations," wherever they appear therein, and the word
4 "corporations,"; (2) by striking from subsection (b) the
5 words "the Federal intermediate credit banks, and the pro-
6 duction credit corporations" and substituting in lieu thereof
7 the words "and the Federal intermediate credit banks"; and
8 (3) by striking from subsections (b) and (c) the words
9 "and corporation", "and corporations", and "corporation,"
10 wherever they appear therein.

11 SEC. 109. Sections 658 and 1014 of title 18, United
12 States Code, are hereby amended by striking from each such
13 section the words "or in which a production credit corpora-
14 tion holds stock".

15 TITLE II—MISCELLANEOUS PROVISIONS

16 SEC. 201. (a) The Government Corporation Control
17 Act, as amended, is amended (1) by striking from section
18 101 the words "Federal Intermediate Credit Banks; Produc-
19 tion Credit Corporations,"; (2) by inserting in section 201
20 immediately following "(3)" the words "Federal Inter-
21 mediate Credit Banks, (4)"; (3) by changing "(4)" in
22 section 201 to "(5)"; and (4) by striking from sections
23 302 and 303 the words "production credit corporations,".

24 (b) After the effective date of this Act, the Federal
25 intermediate credit banks may utilize their funds for adminis-

1 trative expenses without regard to the limitations contained
2 in any other Act of Congress governing the expenditure of
3 appropriated funds.

4 (c) Paragraph Seventh of section 5136 of the Revised
5 Statutes as amended, is amended (1) by inserting in next
6 to the last sentence immediately before the words "Federal
7 Home Loan Banks", the words "thirteen banks for coopera-
8 tives or any of them or the"; and (2) by changing the last
9 sentence to read as follows: "The limitations and restrictions
10 herein contained as to dealing in and underwriting investment
11 securities shall not apply to obligations issued by the Inter-
12 national Bank for Reconstruction and Development which
13 are at the time eligible for purchase by a national bank for
14 its own account: *Provided*, That no association shall hold
15 obligations issued by said bank as a result of underwriting,
16 dealing, or purchasing for its own account (and for this pur-
17 pose obligations as to which it is under commitment shall be
18 deemed to be held by it) in a total amount exceeding at any
19 one time 10 per centum of its capital stock actually paid in
20 and unimpaired and 10 per centum of its unimpaired surplus
21 fund."

22 SEC. 202. (a) This Act shall become effective on Janu-
23 ary 1 next following its enactment.

24 (b) For purposes of applying the amendment in section
25 103 of this Act, that part of the fiscal year 1957 preceding

1 the effective date of this Act shall be deemed to be a separate
2 fiscal year.

3 SEC. 203. (a) If any provision of this Act, or the appli-
4 cation thereof to any person or circumstance, is held invalid,
5 the remainder of the Act, and the application of such pro-
6 visions to other persons or circumstances, shall not be affected
7 thereby.

8 (b) The right to alter, amend, or repeal this Act is
9 hereby expressly reserved.

84TH CONGRESS
2d Session

H. R. 10315

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. POAGE

MARCH 29, 1956

Referred to the Committee on Agriculture

A BILL.

to amend the act relating to the organization of the
Federal Reserve System, and to provide for the
operation of the Federal Reserve System, and to
provide for the operation of the Federal Reserve
System, and for other purposes.

Enacted at Washington, D. C., this 1st day of

January, 1915.

Approved by the President of the United States.

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued . April 30, 1956
For actions of April 27, 1956
84th-2nd. No. 69

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HIGHLIGHTS: House passed road bill. House committee reported Commerce Department appropriation bill. House subcommittee ordered reported Federal intermediate credit bank bill. Reps. Cooley and Poage introduced farm bills.

HOUSE

1. **ROADS.** Passed, 388 to 19, with amendments H. R. 10660, the road bill (pp. 6432-76, 6477-8). Agreed to amendments to maintain the status quo of certain contracts between the States and the utilities located within the States (p. 6439); provide for the submission of reports on highway construction by the Secretary of Commerce to the whole Congress, rather than the Public Works Committee (pp. 6465-6); incorporate a statement of desirability of insuring small business participation in contracts relating to the bill (pp 6465-6); and rejected amendments to provide State authority in the determination of prevailing wage rates (pp. 6439-60); delete provisions making Federal funds available for reimbursement to States for relocating utility facilities (pp. 6464-5); place a maximum ceiling of 50% of total cost of relocating utilities that may be charged to Federal funds (pp. 6461-4); and provide \$500,000 for a 3 year highway safety study (pp. 6468-70). (For provisions of interest to this Department, see Digest 66.)
2. **APPROPRIATIONS.** The Appropriations Committee reported without amendment H. R. 10899, the Commerce Department appropriation bill for 1957 (H. Rept. 2076).
p. 6483

3. TEXTILE IMPORTS. Rep. Lanham discussed the effect **which** the importation of certain textiles and apparel was having on the domestic textile industry, and urged the adoption of a quota provision on textile imports. p. 6479
4. FLOOD CONTROL. Received from the Army Corps of Engineers a report on a partial survey of rivers and harbors in Alaska, for purposes of flood control, hydro-electric power, and other water facilities (H. Doc. 390); to the Public Works Committee. p. 6483
5. FARM LOANS. The Conservation and Credit Subcommittee of the Agriculture Committee ordered reported to the full committee with amendment H. R. 10285, relating to the merging of production credit corporations in Federal intermediate credit banks, the retirement of Government capital in Federal intermediate credit banks, and to provide for the supervision of production credit associations. ~~p. 6407~~
6. LEGISLATIVE PROGRAM. Rep. McCormack announced the following program for this week (April 30 through May 4): Mon., the NATO conference resolution; Tues., the Private Calendar and the rural libraries bill; Wed., Thurs., Fri., and Sat., the Commerce Department appropriation bill for 1957 and the D. C. transportation system bill. The Majority Leader did not announce any scheduled consideration of farm legislation. p. 6474
7. ADJOURNED until Mon., Apr. 30. p. 6479

SENATE

8. FOREIGN AFFAIRS. Sen. Morse inserted correspondence and a pamphlet received from James P. Warburg, a N. Y. financier, on the subject of American foreign policy, which includes comments on the accomplishments of FAO, a discussion of the problems of food surpluses, trade barriers, price supports, food consumption, farm prices and farm income, and criticism of our present farm policies (p. 6334, 4-26-56).

ITEMS IN APPENDIX

9. FAMILY FARM. Extension of remarks of Rep. Patman asking "what are the reasons for big farms getting bigger and small farms getting smaller?" and inserting Prof. Gaffney's, N. C. State College, article summing up the recent transformations in farm holdings and pointing out the portentous impact of these transformations. p. A3431
10. FARM PROGRAM. Rep. Hard inserted a newspaper article, "An Exemplary Display of Honesty and Courage," commending the President's veto of the farm bill. p. A3433.
Rep. Harden inserted an article criticizing the farm bill as it passed the House. p. A3433
Rep. McVey inserted excerpts from several newspapers showing their reactions to the President's veto of the farm bill. p. A3448
11. DAIRY INDUSTRY. Rep. Smith, Wis., inserted a newspaper article **which** points out that the Pure Milk Products Cooperative, of Fond DuLac, Wis., was "greatly pleased" with the recent increase in price supports for the dairy farmer. p. A3438
Extension of remarks of Rep. Bow stating that "members of the Ohio delegation are gratified by the prompt action of the Department of Agriculture in accepting our suggestion for an immediate increase in the farmer's class I milk price". p. A3448

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued May 15, 1956
For actions of May 14, 1956
84th-2nd, No. 78

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HIGHLIGHTS: Conferees agreed to report on sugar bill. House passed agricultural appropriation bill. Sen. Morse introduced and discussed bill to provide assistance for disaster stricken orchards. Rep. Reece commended Department's rural development program. House committee reported bill to merge intermediate credit banks and PCA's.

SENATE

1. ELECTRIFICATION. Began debate on S. 1823, to authorize the construction of works of improvement in the Niagara River for power and other purposes. pp. 7196, 7234, 7240, 7241
2. NOMINATION of Sam H. Bober to the Federal Farm Credit Board was confirmed. p. 7185
3. WHEAT. Sen. Neuberger commended the efforts of the Oregon Wheat Growers League to advertise our wheat in foreign countries. p. 7200
4. ALASKA STATEHOOD. Sen. Neuberger inserted articles on Alaska's recent efforts to attain statehood. p. 7201
5. FOREIGN TRADE. Sen. Beall inserted a magazine article and a letter from Gov. McKeldin criticizing the present tariff rate on watches. p. 7202
Sen. Humphrey inserted and discussed an economic analysis of the effects of foreign trade on Minn. p. 7206

HOUSE

6. AGRICULTURAL APPROPRIATIONS. Passed without amendment H. R. 11177, the agricultural appropriation bill. pp. 7261, 7284

7. RURAL DEVELOPMENT. Rep. Reece commended this Department's rural development program in certain counties in Tenn. and urged that appropriations for this program should reflect the full request of USDA. p. 7255
8. FARM LOANS. The Agriculture Committee reported with amendment H. R. 10285, to merge production credit corporations and Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations (H. Rept. 2160). pp. 7285, D471
9. PERSONNEL. The Post Office and Civil Service Committee reported without amendment S. 3315, to amend Sec. 5 of the Civil Service Retirement Act regarding death benefits (H. Rept. 2153); H. R. 10368, to require that any agency of the Executive Branch, requesting expanded functions or programs, shall submit a statement containing information as to the number of civilian officers and employees required to carry out the additional or expanded functions (H. Rept. 2155); and S. 3237, to provide for continuance of life insurance coverage under the Federal Employees' Group Life Insurance Act in the case of employees receiving benefits under the Federal Employees' Compensation Act (H. Rept. 2158). p. 7284
This Committee reported with amendment H. R. 11040, to provide for certain supergrade positions with scientific or professional qualifications in the Departments of Defense, Interior, and Commerce (H. Rept. 2161). p. 7285
10. ATOMIC ENERGY. Rep. Bass urged further development of atomic energy for peaceful purposes. p. 7256
11. TAXATION. House conferees were appointed on H. R. 6143, relating to certain tax provisions on the transportation of poultry and the sale of livestock on account of drought. p. 7252 (Senate conferees have not yet been appointed.)
12. SUPPLEMENTAL APPROPRIATION BILL; LEGISLATIVE PROGRAM. The Majority Leader announced that this bill, H. R. 10004, is to be considered Wed., May 16. p. 7254
13. SUGAR. On May 12 the conferees agreed to file a report on H. R. 7030, the sugar bill. The "Daily Digest" includes the following statement:
"There were three main points of difference between the House and Senate bills, namely, the length of the extension, the percentage of increased demand in the United States allocated to foreign and to domestic producers, and the division of the foreign shares among the producing countries.
"1. The Senate conferees receded on the length of the extension and adopted the 4-year period in the House bill rather than the 6 years as passed by the Senate.
"2. The House conferees receded on the percentage allocated to foreign and domestic producers and adopted the Senate formula of 55 percent of the increase to domestic producers and 45 percent to foreign suppliers. The House bill would have divided the increase 50 percent to each.
"3. A compromise was worked out on the share allocated to each foreign supplier on the basis of percentage of total sugar shipments to the United States by Cuba and all the full-duty countries. The following table compares House and Senate bills and shows the compromise agreed upon by the conferees.

FARM CREDIT ACT OF 1956

MAY 14, 1956.—Committed to the Committee of the Whole House on the State
& the Union and ordered to be printed

Mr. COOLEY, from the Committee on Agriculture, submitted the
following

R E P O R T

[To accompany H. R. 10285]

The Committee on Agriculture, to whom was referred the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The amendments are as follows:

Page 2, line 1, strike out "farmer ownership" and insert:

increased farmer participation in the management, control,
and ownership.

Page 3, lines 4 and 5, strike out "to be held by him on behalf of the United States,".

Page 12, lines 16 through 25, strike out the sentence beginning on line 16 and substitute the following:

In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, redis-

counting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of organization of the bank to the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.

Page 14, line 25, strike out " 'seven' " and insert " 'five' ".

Page 15, lines 10 and 11, strike out all of subsection (e).

Page 15, line 12, strike out "(f)" and insert "(e)".

Page 15, following line 17, insert the following:

(f) Section 203 of the Federal Farm Loan Act, as amended, is amended (i) by inserting in subsection (a) thereof, after the words "outstanding consolidated debentures" the words "or other similar obligations"; and (ii) by inserting in subsections (d) and (e) thereof, after the word "debentures" wherever used therein, except in the last sentence of subsection (d), the words "or other similar obligations".

Page 17, beginning on line 8, insert a period after "Act" and strike out the rest of the sentence.

Page 18, line 12, strike out "borrowers" and insert "borrowers."

Page 18, line 13, insert "and" after the semicolon.

Page 18, lines 15 through 22, strike out the semicolon on line 15, insert a period, and strike out the rest of the sentence.

STATEMENT

Section 2 of the Farm Credit Act of 1953 (Public Law 202, 83d Cong., approved August 6, 1953) states that it is the policy of the Congress "to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration." That section also requires the Federal Farm Credit Board, established under the provisions of that act, to make legislative recommendations for carrying that policy into effect, including means of increasing borrower participation in the ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, the production credit corporations and the banks for cooperatives may be retired.

Pursuant to the obligation imposed upon it by the 1953 act, the Federal Farm Credit Board made recommendations in December 1954 relating primarily to the banks for cooperatives and the production credit corporations. The Farm Credit Act of 1955 (Public Law 347, 84th Cong., approved August 11, 1955) contained the recommendations of the Federal Board with respect to the banks for cooperatives.

The recommendations of the Board with respect to the production credit corporations were not enacted because objections voiced at the hearings indicated that the matter needed further study. In addition, the Federal Board had made no recommendation concerning the retirement of the Government capital in the Federal intermediate credit banks and the committee thought it advisable to consider legislation for retirement of Government capital in both the corporations and the credit banks at the same time. Accordingly, the committee requested the Federal Board to give further study to the short-term credit institutions and to make new recommendations at the second session of this Congress.

The recommendations of the Federal Board relating to the production credit corporations and the Federal intermediate credit banks were submitted to the Congress on March 16, 1956. H. R. 10285, reported herewith, embodies these recommendations of the Federal Board.

At the hearings on the bill numerous witnesses, including representatives of the major farm organizations, appeared in support of the measure, although one farm organization suggested an amendment and another, while not endorsing any bill, favored legislation to provide for completing the "mutualization" of the Farm Credit System and the retirement of the remaining Government capital therein. The amendment suggested by the farm organization would have permitted other financing institutions (usually referred to in this report as "OFI's") organized and operated on a cooperative basis to participate in the purchase of the banks.

Representatives of financing institutions, other than the production credit associations, rediscounting with and borrowing from the intermediate credit banks were generally opposed to the bill. These institutions (the OFI's) were opposed to any legislation which would convert the intermediate credit banks to farmer ownership. They would prefer to see the banks continue wholly Government owned. It was the position of some, however, that if the Congress felt compelled to enact legislation, the OFI's should be afforded the opportunity to participate in the purchase and operation of the credit banks on the same basis as the production credit associations. Other OFI's stated that if legislation must be passed, it should provide for the retirement of Government capital in the banks out of earnings and that upon retirement of all Government held stock, the credit banks should become nonstock "public trusts" supervised by the Farm Credit Administration and operated in the interest of all users of the banks.

Except for the OFI's, only three witnesses appeared in opposition to the bill, and their objections were concerned as much with the timing of the legislation as with its content. One of the witnesses requested merely that the effective date of the legislation be delayed for an extended period beyond that proposed in the bill.

With one exception, the committee made only minor changes in the bill. These changes will be discussed in more detail in the report.

FEDERAL FARM CREDIT SYSTEM

There are in each of the 12 farm credit districts a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. There is a Central Bank for Cooperatives located in the District of Columbia. Each district has a district farm credit board which also serves as the board of directors of each

of the four district institutions. Each district farm credit board consists of 7 members, 2 elected by the national farm loan associations of the district, 2 by the production credit associations of the district, 1 by the cooperative associations which hold voting stock in the district bank for cooperatives, and 2 appointed by the Governor of the Farm Credit Administration.

The Federal land banks provide farmers and ranchers with long-term credit on farm real estate through approximately 1,100 national farm loan associations. The Federal intermediate credit banks discount agricultural paper for and make loans to production credit associations and other financing institutions (OFI's) which make short-and intermediate-term loans to farmers and ranchers. The production credit corporations are not themselves engaged in making loans but supervise the production credit associations. The banks for cooperatives extend credit to farmers' cooperative marketing, purchasing, and service cooperatives.

The cooperative Federal Farm Credit System provides qualified farmers with credit on a sound basis adapted to their needs and at interest rates based on the cost of money in the market plus the cost of operating the system, including provision for adequate reserves. Funds which are loaned by the farm credit institutions are obtained largely from the sale of bonds and debentures to the investing public.

Each borrower from a Federal land bank is required to become a member of the national farm loan association through which the loan is made. The association is a farmer-owned cooperative organization chartered and supervised by the Farm Credit Administration. The borrower purchases capital stock of the association in an amount equal to 5 percent of the amount of his loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. Farmer members own all the capital stock of each of the approximately 1,100 national farm loan associations; and the associations, in turn, own all of the capital stock of the Federal land banks. The Federal land bank system is completely farmer-owned and has been since 1947 when the last of the Government capital was retired.

The production credit associations are cooperative organizations chartered by the Farm Credit Administration and supervised by the production credit corporations and the Farm Credit Administration. Each borrower from a production credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. The amount of class A (nonvoting) stock of the associations originally owned by the production credit corporations has been reduced from a peak of \$90 million to about \$2.2 million and 440 of the 498 associations are now entirely farmer-owned. Many members of the associations also own substantial amounts of class A stock. The production credit associations are, therefore, rapidly becoming wholly farmer-owned.

Under the provisions of the Farm Credit Act of 1955, enacted during the 1st session of the 84th Congress, each borrower from a bank for cooperatives is required to purchase each quarter class C (voting) stock in the bank in an amount related to the quarterly interest payable on its loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). The annual net earnings of the banks, after reserves, dividends on class B (investment) stock, and franchise taxes are provided for, are

required to be distributed in class C stock to borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in a minimum amount equal to the amount of class C stock issued for that year. Over a reasonable period of years it is expected that funds from the interest "override" and from net earnings will enable the banks to retire all class A stock now owned by the United States.

Two farm credit institutions—the production credit corporations and Federal intermediate credit banks—have always been and still are wholly Government-owned. Present law does not provide any means of converting either of them to farmer-owned institutions. H. R. 10285 would provide such means and thus make it possible to complete the job of converting all institutions supervised by the Farm Credit Administration to wholly farmer-owned institutions.

FEDERAL INTERMEDIATE CREDIT BANKS

The Federal intermediate credit banks were established in 1923 with an initial authorized capital of \$5 million for each bank subscribed by the United States. Additional capital for the credit banks was provided by an act of Congress approved January 31, 1934 (48 Stat. 348). That act made available to the Farm Credit Administration a revolving fund of \$40 million and authorized the Governor, with the approval of the Secretary of the Treasury, to subscribe for and to pay in such additional capital and paid-in surplus as he deemed necessary to enable the credit banks to meet the needs of eligible borrowers. As of December 31, 1955, the Government's capital investment in the banks was \$62.4 million, consisting of the original \$60 million of capital stock and \$2.4 million of paid-in surplus, leaving \$37.6 million in the revolving fund available for further investment in the banks.

The credit banks were established to provide agriculture with a permanent, stable, and dependable source of short-and intermediate-term agricultural credit. They serve as banks of discount and not as direct lending banks. They were authorized initially to discount agricultural paper for a number of different kinds of private lending agencies and later were also authorized to discount such paper for the production credit associations organized under the Farm Credit Act of 1933. Thus the banks make no loans direct to farmers and ranchers but instead finance the production credit associations and the OFI's which make such direct loans. In addition, the banks are authorized to make loans to and discount paper for the banks for cooperatives and to make certain types of direct loans to farmers' cooperative associations.

As a result of the growth and development of the production credit system supervised by the Farm Credit Administration, the major part of the credit business of the banks is now done with the production credit associations. During the fiscal year 1955 about 88 percent of the banks' average daily balances of loans and discounts was accounted for by the production credit associations. Among the districts this percentage ranged from 66 to 96 percent.

Most of the OFI's doing business with the credit banks are State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

The credit banks finance their lending operations primarily through the issuance and sale to the investing public of consolidated collateral

trust debentures and by direct borrowings from commercial banks. The United States assumes no liability for the debentures or other obligations of the credit banks.

PRODUCTION CREDIT CORPORATIONS

The production credit corporations organized under the Farm Credit Act of 1933, like the Federal intermediate credit banks, are wholly owned Government corporations. A revolving fund of \$120 million was used to capitalize these corporations. As of December 31, 1955, the amount of stock of the corporations held by the United States amounted to \$31,350,000 and the earned surplus and reserves of the corporations amounted to approximately \$13,500,000. There remains in the revolving fund \$58,650,000 for future subscriptions to stock of the corporations, \$30 million having been returned in 1949 from the revolving fund to the general fund of the Treasury.

The production credit corporations provide service to and supervise the production credit associations. They prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations supplement the capital of production credit associations when necessary and appropriate. They also see that the associations return the corporation-owned capital as rapidly as conditions will permit. The corporations prescribe or approve interest rates charged by the associations. They approve the compensation of association personnel and generally guide the associations in the conduct of their business.

PRODUCTION CREDIT ASSOCIATIONS

The production credit associations are federally chartered corporations which make short- and intermediate-term loans to farmers and ranchers within designated areas. Like the production credit corporations, the associations were organized under the Farm Credit Act of 1933. Each production credit association has two classes of stock—class A (nonvoting) which may be issued to a production credit corporation or to farmer members and other investors, and class B (voting) stock which may be issued only to member borrowers. The associations are also authorized under conditions stated in the Farm Credit Act of 1953 to issue class C stock but so far none has been issued.

The production credit corporations furnished almost all of the initial capital of the production credit associations through the purchase of class A stock. Over the years, farmers have purchased substantial amounts of class A stock in their associations. Through purchases of stock and the building up of reserves and earned surplus, the associations have been able to retire most of the \$90 million of capital stock once held by the production credit corporations. As of December 31, 1955, less than \$2.2 million of the capital stock of the associations was owned by the production credit corporations and 440 of the 498 associations are now entirely member owned.

COMMITTEE AMENDMENTS

With the exception of perfecting and clarifying amendments, the following is an explanation of the committee amendments to the bill:

Section 103

This section amends section 206 of the Federal Farm Loan Act, as amended, to provide a new method of distribution of the net earnings of the Federal intermediate credit banks. This section also adds a new provision relating to the distribution of the assets of the banks in the event of their liquidation. Under the language of the bill as introduced the surplus on the banks of the day of merger, amounting to about \$62 million, would have been paid to the holders of class A (Government) stock and the holders of class B (production credit association) stock pro rata. The amendment made by the committee would give those OFI's doing business with the banks on the day of merger an interest in such surplus (exclusive of that portion transferred from the production credit corporations) to the extent that the Farm Credit Administration determines they have contributed to it over the period of some 33 years the banks have been in business. This interest of the OFI's would be computed on the basis of the percentage which their business is of the total volume of business done by the banks since their organization in 1923. Thus, under the language of the amendment, the OFI's would share proportionately in whatever amount of such surplus remains on the day of liquidation. Since the OFI's have contributed to building the portion of the surplus in question (amounting to about \$50 million), the committee feels that they are equitably entitled to share proportionately in whatever amount of such surplus remains if and when the banks are liquidated. The remaining portion of such surplus (including the surplus transferred from the production credit corporations in which the OFI's would have no interest) would, as under the original language of the bill, be prorated among the holders of class A and class B stock. While liquidation of the banks is not contemplated or foreseeable, it is necessary to provide for that eventuality in order to resolve questions of ownership contemplated by the policy declaration of the Farm Credit Act of 1953.

Section 104

Under present law the credit banks have authority to discount paper with maturities up to 3 years. Section 104 (c) of the bill as introduced would have increased this limit to 7 years. While some increase is needed to permit production credit associations and OFI's to meet the demands of farmers and ranchers for longer term loans, particularly for semicapital purposes such as purchases of heavy farm machinery and equipment, the committee believes that a period of 7 years is too long. The committee amendment would reduce the limit in the bill to 5 years. This change would enable primary lenders to provide more effective credit service in this field to farmers and ranchers.

The committee also deleted from the bill section 104 (e) which would have repealed the prohibition in existing law against the credit banks, without the approval of the Farm Credit Administration, discounting notes and other obligations upon which the original borrower was charged a rate of interest exceeding by more than 1½ percent the discount rate of the bank. The committee feels that this provision of the

present law should be retained as a deterrent against excessive interest charges by lenders who wish to avail themselves of the facilities of the credit banks. While competition may accomplish this objective under normal conditions, it seems safer to retain this authority in the Farm Credit Administration.

Section 105

Section 105 (i) of the bill as introduced would have permitted the production credit associations to make loans to their members secured by agricultural commodities stored in bonded warehouses without the purchase of additional class B stock. This provision of the bill is contrary to the requirement, which was a part of the original law setting up the production credit system, that each borrower must own class B stock in an amount equal to 5 percent of the loan. This requirement is basic to the system and has been a principal factor in building the present financial strength of the associations. The committee has deleted this provision from the bill because it is thought that, in the long run, the provision would do more to weaken the system than to strengthen it.

In regard to the recommendation by certain OFI's that the bill be amended to give them the opportunity to participate in the ownership and operation of the banks on the same basis as the production credit associations, the committee is of the opinion that this would not be consistent with the policy with respect to farm credit institutions as set out in the Farm Credit Act of 1953. The OFI's are, for the most part, organized and operated for profit and are not farmer owned. Those which are farmer owned are State-chartered and not federally supervised. The production credit associations, which contribute nearly 90 percent of the business of the banks, are federally chartered and supervised and are charged with a public responsibility as Federal instrumentalities.

The Federal land banks became farmer owned several years before enactment of the 1953 act. Farmer ownership of the remaining district institutions was declared to be a major objective of that act. The Farm Credit Act of 1955 provided the necessary legislation to facilitate farmer ownership of the banks for cooperatives and the bill reported herewith would enable the remaining institutions to accomplish that objective.

The committee is satisfied that the proposed bill adequately protects the interest of the OFI's. The declared policy and various specific provisions of the bill make it abundantly clear that the facilities of the credit banks shall continue to be available to the OFI's on the same basis as the production credit associations regardless of the ownership of the banks.

The committee gave particular study to two provisions of the bill relating to personnel of the merged institutions (sec. 101 (c)) and to the retirement of class B stock of the production credit associations after all Government-owned stock is retired (sec. 102).

The committee was assured by officials of the Farm Credit Administration that reductions in personnel of the production credit corporations and the Federal intermediate credit banks would be brought about largely by not filling existing vacancies and by normal retirements and resignations. Under the provisions of the bill, only a few of those now employed by the corporations and the banks would not be retained by the merged institutions. It should be remembered also

that under the provisions of the bill decisions on personnel matters would rest with the local board of directors in each district which could be expected to deal with personnel in an understanding and sympathetic manner.

Some fear was expressed at the hearings that the bill might permit the banks, after all Government-held stock has been retired, to retire all class B stock and thereby convert the banks into nonstock public trust institutions. It is the opinion of the committee, however, that under the provisions of the bill such action could not be taken consistent with the declared policy of the legislation to facilitate farmer ownership of the credit banks. It is the intent of the legislation to convert these banks into farmer-owned institutions and it would be necessary at all times to have class B stock outstanding in order to accomplish that objective. The committee, therefore, felt that no amendment was needed in this respect and that the provisions of the bill as reported preclude any action on the part of the banks or the Farm Credit Administration to retire completely all class B stock.

ANALYSIS OF THE BILL

Short title

Section 1 provides that the short title of the bill shall be the "Farm Credit Act of 1956."

Declaration of policy (sec. 2)

Section 2 contains a statement of policy with respect to the proposed bill with major emphasis upon the continued growth and development of the production credit associations. The express policy would be to give maximum authority to the production credit associations to determine the credit needs and loan policies best adapted to the areas which they serve, consistent with the maintenance of a well coordinated national production credit system. The policy would also include assurance to other financing institutions of the continued right to borrow from and to rediscount agricultural paper with the credit banks on a basis comparable with production credit associations.

TITLE I—PRODUCTION CREDIT SYSTEM

Merger of production credit corporations in Federal intermediate credit banks (sec. 101)

Section 101 would provide for the merger of the production credit corporation of each district in the Federal intermediate credit bank of the district. Except for stock in the production credit associations, all assets of the corporation would be transferred to the bank. The bank would also assume all obligations and liabilities of the corporation. Stock held by the corporation in production credit associations would be transferred to the Governor and he would cancel an equal par amount of stock which he now holds in the corporation.

Except for a few functions vested in the Farm Credit Administration, the functions of the production credit corporations in supervising the production credit associations would be transferred to the Federal intermediate credit banks. In order to carry out the declared policy with respect to the production credit associations, the Farm Credit Administration would be required to provide, by provisions in the charter and bylaws of the banks, or by rules and regulations, or both,

such an organizational setup in the banks as would assure proper supervision of and assistance to the production credit associations to enable them to carry out their function in extending credit to farmers and ranchers. This would be done in a way which would preserve the autonomy of the local associations consistent with the operation of an effective national production credit system. The income derived from surplus transferred from the corporations to the credit banks would be devoted to the payment of the additional expense of such supervision and assistance. This provision would not require a segregation of either such income or expense, hence no additional accounting cost would be involved.

Section 101 would also provide for the termination of the employment of present officers and employees of the production credit corporations and Federal intermediate credit banks but would require the board of directors of each bank, subject to the approval of the Farm Credit Administration, to select the officers and employees of the bank from the old officers and employees of both institutions, to the extent that they are qualified and needed. However, the board would not be bound to reemploy an officer or employee in the same capacity in which he was employed just prior to the effective date of the bill. The bill would require the board, not later than 60 days before the effective date of the bill, to take the necessary action to reemploy such officers and employees as of such effective date. Thus there would be no break in continuity of service of such officers and employees.

Stock of the Federal intermediate credit banks (sec. 102)

Section 102 of the bill would amend section 205 of the Federal Farm Loan Act to provide two classes of stock for the Federal intermediate credit banks: Class A, which would have a par value of \$100, and class B, which would have a par value of \$5.

Under present law, there is but one class of stock for the Federal intermediate credit banks and production credit corporations, all of which is owned by the United States.

Class A stock.—Existing stock of each credit bank held by the Secretary of the Treasury on the effective date of the bill, amounting to \$60 million for all 12 banks, would be transferred to the Governor of the Farm Credit Administration. The Governor would then be authorized to reallocate the stock of the banks, by appropriate transfers of capital funds between banks, as he determined necessary to meet the needs of each bank. Following such adjustment, the then existing stock of each bank would be exchanged for an equal par amount of class A stock of the bank. Stock of the production credit corporation of the district held by the Governor on the effective date of the bill, less the amount canceled pursuant to section 101 (a) of the bill, would be exchanged for an equal par amount of class A stock of the bank. All class A stock to be issued by the credit banks would be held by the Governor on behalf of the United States. No dividends would be paid on class A stock. At the end of each fiscal year, each bank would be required to determine the amount of class A stock to be retired. Whenever the net worth of the bank amounts to more than one-sixth of its peak outstanding debentures and other such obligations, during the immediately preceding 5 years, the minimum amount of such stock which the bank would be required to retire would be the total amount of class B stock and participation certificates issued for

that year. Whenever the net worth of the bank amounts to one-sixth or less of such outstanding debts, the amount of class A stock to be retired would be determined by the bank. As hereinafter explained, the net earnings of the bank, after reserves and franchise taxes are provided for, would be distributed in class B stock to production credit associations and in participation certificates to other financing institutions patronizing the bank.

The proceeds from class A stock retirements of each bank would be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for the stock of the production credit corporation of the district. The proceeds of any further retirements of class A stock of the bank would go into the revolving fund created by section (5e) of the Farm Credit Act of 1933, as amended. The Governor would be authorized to use such revolving fund to purchase class A stock of the banks and would have discretion to determine when such stock should be retired, the proceeds from which would go back into the revolving fund.

Class B stock.—Class B stock would be issued only to production credit associations. This stock would be acquired in two ways: first, by an initial subscription by each association and, second, through distribution of earnings on a patronage basis in class B stock. The initial subscriptions of all production credit associations would equal 15 percent of the total amount of class A stock of all 12 banks. This amount would be apportioned among the associations on the basis of their use of the banks over a representative period. Consequently, the bill provides for such apportionment in two steps: first, the total amount of such subscriptions would be allotted by districts on the basis of the ratio of (1) the average amount of loan and discount indebtedness of the production credit associations of the district during the immediately preceding 5 years to (2) the average amount of such indebtedness of all associations to all banks during such 5-year period; and, second, the portion so allotted to the district would then be further allotted to individual associations on the basis of the ratio of (1) the average loan and discount indebtedness of each association during the immediately preceding 5 years to (2) the average of such indebtedness of all associations to the bank during such 5-year period. A bank might also sell additional class B stock with the approval of the Farm Credit Administration. The purchase price of the initial stock subscription required of each production credit association would be paid over a period of 2 years following the effective date of the bill. Noncumulative dividends of not to exceed 5 percent in any year could be paid without preference on class B stock and participation certificates after all class A stock has been retired. Any association chartered after the effective date of the bill would be required to make an initial investment of \$5,000 in class B stock, but that amount would be adjusted at the end of 5 years to an amount determined by applying to its average indebtedness to the bank the same percentage as the percentage which the initial subscriptions of all other production credit associations was of their indebtedness. After all class A stock is retired, the bank may retire class B stock at par and participation certificates at face amount in accordance with the cooperative principle of retiring first the oldest outstanding stock and certificates. It is intended, however, that a bank would at all times have some class B

stock outstanding. Only in this way would it continue to be farmer owned consistent with the declared policy of the legislation. In the event of liquidation or dissolution of a production credit association or other financing institution, the bank could at any time also retire at fair book value, not exceeding par or face amount, class B stock and participation certificates of the bank owned by such association or institution.

Lien on stock and participation certificates.—The bank would have a first lien on all stock in the bank owned by production credit associations and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders to the bank. The bank would be prohibited, however, from making any loan or advance on the security of its own stock or participation certificates. If the debt of a production credit association or other financing institution is in default, the bank could retire and cancel the debtor's stock or participation certificates in the bank at the fair book value, not exceeding par or face amount, in total or partial liquidation of the debt.

Application of earnings; distribution of assets upon liquidation (sec. 103)

Section 103 of the bill would amend section 206 of the Federal Farm Loan Act to provide a new method of application of net earnings of the banks. The net earnings of a bank would be the amount of income remaining after all operating expenses are paid or provided for, including the establishment of reasonable valuation reserves and the making good of any losses in excess of any such applicable valuation reserves. The net earnings would be applied as follows:

1. *Restoring impairment of capital stock and participation certificates.*—If the board of directors determines that the capital stock and the participation certificates of the bank are impaired, the net earnings would be applied first toward the restoration of the amount of such impairment.

2. *Restoring impairment of surplus account.*—If the board of directors determines that the surplus account of the bank is impaired, the remaining net earnings would be used to restore the amount of such impairment.

3. *Creation and maintenance of reserve account.*—After restoration of any impairment of capital stock, participation certificates, and surplus account, 25 percent of any remaining net earnings would be used to create and maintain a reserve account equal to 25 percent of the outstanding capital stock and participation certificates of the bank. However, if at the end of any fiscal year the sum of the surplus and the reserve account is less than the bank's outstanding capital stock and participation certificates, the bank would continue to apply such 25 percent of earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Amounts carried to the reserve account would not be allocated but would be retained as a protection against losses, thereby adding strength to the capital structure of the bank.

4. *Franchise tax.*—If during all or any part of its fiscal year the Governor held stock in a bank, the bank, after making the required transfer to the reserve account, would pay a franchise tax to the United States equal to 25 percent of its net earnings then remaining, but not exceeding a rate of return on the Government's investment

in the bank calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the Treasury ending next before such tax is due. The tax would be due on the last day of the bank's fiscal year and the applicable rate of interest would be the rate for the last preceding full fiscal year of the Treasury.

5. *Dividends on class B stock and participation certificates.*—When the bank has no class A stock outstanding, net earnings remaining after payment of franchise taxes would be available for the payment of dividends on class B stock and participation certificates.

6. *Patronage refunds.*—The balance of any net earnings remaining after application as explained above would be distributed as patronage refunds. When the bank has class A stock outstanding, patronage refunds would be paid in class B stock to production credit associations and in participation certificates to other financing institutions patronizing the bank. After all class A stock is retired, the bank could pay patronage refunds in such class B stock and participation certificates or in cash as determined by the bank. The recipients of patronage refunds in the form of class B stock and participation certificates, made when the bank at the end of its fiscal year has class A stock outstanding, would not be subject to Federal income taxes on such refunds. Such tax exemption would not apply when the bank has no class A stock outstanding. All such refunds would be paid in the proportion that the amount of interest earned by the bank on the loans to and discounts for each patron bears to the total interest earned by the bank on all loans and discounts outstanding during the fiscal year. Participation certificates would be issued in multiples of \$5 and would state on their face the rights, privileges, and conditions applicable thereto. Patronage refunds would not be paid to any farm credit district bank.

7. *Disposition of losses.*—A net loss in any fiscal year would be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation; third, charges to surplus transferred from the production credit corporation; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

On the effective date of the bill, each bank would also be required to establish a surplus account consisting of its earned surplus, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. This surplus would not be allocated and it could not be distributed as patronage refunds. Instead, it would remain as a part of the permanent capital structure of the bank. It would, however, be available to absorb losses, as indicated above.

Section 103 also provides for the distribution of assets upon liquidation or dissolution of a bank. In that event, all liabilities would first be paid or payment thereof provided for. Next, all class A stock would be retired at par, and then all class B stock and participation certificates would be retired at par or face amount, as the case may be. Any remaining assets would be distributed as follows: First, any surplus established on the effective date of the legislation, as provided in section 103 (except that transferred from the production credit corporation of the district), which the Farm Credit Administration determines was contributed by financing institutions, other than production credit associations, doing business with the bank on t

effective date of the legislation would be paid to such institutions, or their successors, and the balance of such surplus (including that transferred from the production credit corporation of the district) would be paid to the holders of class A stock and class B stock pro rata; and second, any residual assets would be distributed to the holders of class B stock and the holders of participation certificates pro rata.

Discounts and loans (sec. 104)

Under present law, the banks may make loans to production credit associations upon security approved by the Governor, such as Government bonds, but loans to other financing institutions may be made only on the security of paper eligible for discount by the bank. Section 104 (b) of the bill would amend section 202 (a) of the Federal Farm Loan Act to authorize the credit banks to make loans and advances to both production credit associations and other financing institutions on the security of collateral approved by the Governor. However, under the language of the bill, any loan to such other financing institution could be made only to enable such institution to make or carry loans for any agricultural purpose. The amendment also restates the rediscounting and lending authority of the credit banks, and the banks would continue, as heretofore, to serve both production credit associations and other financing institutions in the continental United States and in Alaska, Puerto Rico, and Hawaii.

Section 104 (b) of the bill also would repeal the authority of the credit banks to make direct loans to farmers' cooperative associations, except to enable such associations to make loans to farmers and ranchers for agricultural purposes. This change would eliminate duplication of lending functions of the credit banks and the banks for cooperatives. This section would also permit one credit bank to make loans (by discount or otherwise) to another such bank or to any land bank or bank for cooperatives, upon terms and at interest rates approved by the Farm Credit Administration.

Section 104 (c) of the bill would permit the credit banks to make loans, advances and discounts with maturities at the time they are made or discounted of not more than 5 years. The limit under present law is 3 years.

Discount rates.—Section 104 (d) of the bill would repeal the present provision of law which relates discount and interest rates to the interest rate borne by the last preceding issue of credit bank debentures. Instead each bank would be authorized to determine the discount and interest rates to be charged on its discounts and loans, subject to the approval of the Farm Credit Administration. Rates charged financing institutions of the kind described in section 202 (a) (2) of the Federal Farm Loan Act, as amended by section 104 (b) of the bill, would be the same as those charged the production credit associations.

Section 104 (c) of the bill would authorize the Federal land banks to make loans to Federal intermediate credit banks or to banks for cooperatives upon terms approved by the Farm Credit Administration.

Amendments to the Farm Credit Act of 1933 (sec. 105)

The production credit corporations were organized and chartered under the Farm Credit Act of 1933. Section 105 of the bill contains a number of amendments to the 1933 act which would repeal provisions of that act as they apply to the corporations.

Section 105 (a) of the bill would repeal the authority of the Governor to organize and charter production credit corporations; section 105 (b)

would repeal the provision relating to charters and bylaws insofar as it applies to production credit corporations; and section 105 (c) would repeal the section relating to the capital stock of the production credit corporations.

Section 105 (d) would amend section 5 of the 1933 act to reduce to \$60 million the revolving fund which under the bill would be available for the purchase by the Governor of stock in production credit associations. This revolving fund was originally \$120 million but \$30 million thereof was returned in 1949 to miscellaneous receipts of the Treasury. This section would also increase from \$40 million to \$100 million the revolving fund out of which the Governor is authorized, with the approval of the Secretary of the Treasury, to purchase capital stock of the credit banks.

Section 105 (e) would amend section 6 of the 1933 act to authorize the Governor of the Farm Credit Administration to purchase class A stock in production credit associations. This authority is now vested in the production credit corporations. This transfer of authority from the corporations to the Governor would not change the status of production credit associations insofar as concerns laws relating generally to corporations partially owned or controlled by the Government. Payments for such stock purchased by the Governor would be made out of the \$60 million revolving fund authorized by section 5 (a) of the 1933 act as amended by section 105 (d) of the bill, and the proceeds of retirements of any such class A stock would be paid into such revolving fund.

Section 105 (f) of the bill would repeal the requirement that a production credit association furnish the production credit corporation of the district with a copy of its articles of incorporation; section 105 (g) would substitute the Governor for the production credit corporation as the proper holder of stock of a production credit association and repeal the authority of the president of the production credit corporation as to approval and removal of association officers and directors, matters which could properly be provided for in bylaws approved by the Governor; section 105 (h) would substitute the credit bank for the production credit corporation as the institution to approve the minimum surplus account of the production credit association and the payment of dividends by a production credit association; section 105 (i) would provide that rules and regulations governing the terms and conditions of loans by production credit associations shall be prescribed by the district farm credit board with the approval of the Farm Credit Administration, authorize production credit associations to make loans to farmers for general agricultural purposes and their other requirements, and vest authority in the credit bank to approve certain "excess" production credit association loans (an authority now vested in the production credit corporation); sections 105 (j) and 105 (k) would authorize any bank for cooperatives to make loans to a land bank or intermediate credit bank upon terms approved by the Farm Credit Administration; section 105 (l) would remove the production credit corporations from the provisions setting forth the general powers of certain farm credit institutions; section 105 (m) would remove the production credit corporations from the provision relating to examinations by examiners designated by the Governor; section 105 (n) would remove the production credit corporations from the provision designating certain farm credit institutions as fiscal agents of the United States; section 105 (o) would remove the production

credit corporations from the provisions exempting farm credit institutions from certain taxes; section 105 (p) would remove the production credit corporations from the provision relating to liquidation of farm credit institutions; and section 105 (q) would repeal the authority of the production credit associations to make loans to farmers for home alterations, repairs, and improvements without the purchase of class B stock in the associations.

Amendments to the Farm Credit Act of 1937 (sec. 106)

Section 106 of the bill contains technical amendments to the 1937 act required by reason of the merger of production credit corporations in the Federal intermediate credit banks. For example, section 106 (a) would substitute the Governor for the production credit corporation in a provision which refers to stock of the production credit associations held by the production credit corporation. Also, by way of example, section 106 (b) would remove the production credit corporations from the provision which authorizes the district institutions to employ joint officers and employees.

Amendments to the Farm Credit Act of 1953 (sec. 107)

Section 107 of the bill contains technical amendments to the 1953 act required by reason of the merger of the corporations in the banks. Section 107 (a) substitutes the credit bank for the production credit corporation as the institution to which the Governor is directed to delegate, under certain circumstances, his responsibilities for supervision of the production credit associations. Section 107 (b) substitutes the Governor for the production credit corporation as the proper person to authorize the issuance of class C stock by a production credit association and directs that payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of the 1933 act, as amended.

Other amendments (sec. 108)

Section 108 of the bill would amend the Department of Agriculture Organic Act of 1944 by deleting the production credit corporations from those provisions authorizing assessments of the district institutions for expenses of the Farm Credit Administration.

Section 109 of the bill would amend two sections of the Criminal Code to delete the language "or in which a production credit corporation holds stock." The Farm Credit Act of 1933 authorized the production credit corporation to subscribe and pay for stock in a production credit association not organized under that act if such association was controlled by a farmers' cooperative association. No production credit corporation has ever held stock in any such production credit association. This authority in the 1933 act is repealed by the bill and it is appropriate to delete the reference in the Criminal Code to any such production credit association.

TITLE II—MISCELLANEOUS PROVISIONS

Designation of credit banks as mixed-ownership Government corporations (Sec. 201)

Section 201 (a) of the bill would remove the production credit corporations from the provisions of the Government Corporation Control Act. This section would also redefine the Federal intermediate credit banks as "mixed-ownership" Government corporations

instead of wholly owned Government corporations. Titles II and III relating primarily to audit by the General Accounting Office would continue to apply to the banks. Section 201 (b) of the bill would authorize the banks, after the effective date of the bill, to use their funds for administrative expenses without regard to the provisions of any other act of Congress governing the expenditure of appropriated funds. Section 201 (c) would amend the National Bank Act to remove the present limitation on national banks investing in debentures issued by the banks for cooperatives. A national bank is now prohibited from investing in such securities an amount exceeding 10 percent of its capital stock actually paid in and unimpaired and 10 percent of its unimpaired surplus. This limitation is not applicable to bonds issued by the Federal land banks or to debentures issued by the intermediate credit banks, and the proposed amendment would place all such farm credit securities on the same basis insofar as their purchase by the national banks is concerned.

Section 202 would provide an effective date of January 1 next following the enactment of the bill. This section would also define, for the purpose stated, the 6 months preceeding such effective date as a separate "fiscal year."

Section 203 of the bill contains the usual separability provision and reserves the right to alter, amend, or repeal the enacted bill.

CHANGES IN EXISTING LAW (H. R. 10285)

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in brackets, new matter is in *italic*, and existing law in which no change is proposed is shown in roman):

ACT OF JULY 17, 1916

AN ACT To provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be "The Federal Farm Loan Act."

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SEC. 13.

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Seventeenth. To make loans to other Federal land banks, to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended, upon such terms and conditions as may be approved by the Farm Credit Administration.

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SEC. 201.

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(b) One such institution shall be established in each farm credit district in the same city as the Federal land bank of the district. The

members of the several farm credit boards of the farm credit districts provided for in the Farm Credit Act of 1937 shall be ex officio the directors of the several Federal intermediate credit banks herein provided for and shall have power, subject to the approval of the Farm Credit Administration, to employ and fix the compensation of such officers and employees of such Federal intermediate credit banks as may be necessary to carry on the business authorized by this title. *The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks.*

* * * * *

【SEC. 202. (a) That Federal Intermediate Credit Banks, when chartered and established, shall have power, subject solely to such restrictions, limitations, and conditions as may be imposed by the Farm Credit Administration not inconsistent with the provisions of this Act—

【(1) To discount for, or purchase from, any national bank, and/or any State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, cooperative bank, credit union, cooperative association of agricultural producers, organized under the laws of any State or of the Government of the United States, and/or any other Federal Intermediate Credit Bank, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening, or marketing of livestock; and to make loans or advances direct to any such organization, secured by such obligations; and to discount for, or purchase from, any production credit association or bank for cooperatives organized under the Farm Credit Act of 1933, or any production credit association in which a Production Credit Corporation organized under such Act holds stock, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation presented by such association or bank, and to make loans and advances direct to any such association or bank secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

【(2) To buy or sell, with or without recourse, debentures issued by any other Federal intermediate credit bank; and

【(3) To make loans or advances direct to any cooperative association organized under the laws of any State and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or livestock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on livestock, and/or such other collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance, when secured only by warehouse receipts and/or shipping documents, and/or mortgages on livestock, shall exceed 75 per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the livestock covered by said mortgages; and to accept drafts or bills of exchange issued or drawn by any such association when secured by warehouse receipts

and/or shipping documents covering staple agricultural products as herein provided, at such rates of commission as may be approved by the Governor of the Farm Credit Administration.】

SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: Provided, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration.

* * * * *

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal intermediate credit bank of not more than [three] five years. Any Federal intermediate credit bank may in its discretion sell loans or discounts made under this section, with or without its endorsement.

SEC. 203. (a) Federal intermediate credit banks shall have power, subject to the approval of the Farm Credit Administration, to borrow money and to issue and to sell collateral trust debentures or other similar obligations with a maturity at the time of issue of not more than five years, which shall be secured by at least a like face amount of cash, United States Government bonds, Federal Farm Mortgage Corporation bonds, or notes or other such obligations discounted or purchased or representing loans made under section 202: Provided, That the aggregate amount of the outstanding debentures and similar obligations issued individually by any Federal intermediate credit bank, together with the amount of outstanding consolidated debentures

tures or other similar obligations issued for its benefit and account, shall not exceed ten times the surplus and paid-in capital of such bank.

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(d) Whenever it shall appear desirable to issue consolidated debentures or other similar obligations of the twelve Federal intermediate credit banks and to sell them through a common selling agency, and the Federal intermediate credit banks shall, by resolutions, consent to the same, the banks may issue and sell said debentures or other similar obligations subject to the provisions of this section and the provisions of section 21 of Title I of this Act, insofar as applicable. As used in this Act, the term "debentures" includes such consolidated debentures.

(e) All debentures or other similar obligations issued by Federal intermediate credit banks shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or of any officer or officers thereof.

[SEC. 204. (a) Any Federal intermediate credit bank may, with the approval of the Farm Credit Administration, from time to time establish rates of discount and interest which, except with the approval of the Governor of the Farm Credit Administration, shall not exceed by more than 1 per centum per annum the rate borne by the last preceding issue of debentures which it issued or in which it participated. Any Federal intermediate credit bank may be required by the Governor of the Farm Credit Administration to acquire, upon such terms as he may approve, loans and/or discounts of any other Federal intermediate credit bank.]

SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations.

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[SEC. 205. That for the purpose of exercising the powers conferred by this title, each Federal Intermediate Credit Bank shall have a subscribed capital stock of \$5,000,000, which amount may be increased from time to time with the approval of the Governor of the Farm Credit Administration. Capital stock of such amount shall be divided into shares of \$5 each and shall be subscribed, held, and paid by the Government of the United States. It shall be the duty of the Secretary of the Treasury to subscribe to such capital stock on behalf of the United States, such subscription to be subject to call in whole or in part by directors of the said banks upon 30 days' notice to the Secretary of the Treasury and with the approval of the Farm Credit Administration. The Secretary of the Treasury is authorized and directed to take out shares as called and to pay for the same out of any money in the Treasury not otherwise appropriated. In the event that there shall be an impairment of the paid-in capital of any Federal intermediate credit bank, the Farm Credit Administration, at such time or times as it deems advisable, may determine and assess the amount thereof against the other Federal intermediate credit banks on such equitable basis of apportionment as it shall prescribe. Each bank against which such an assessment is made shall, out of its surplus and/or to an extent up to 50 per centum of

its net earnings, in accordance with the terms of such assessment, pay the amount thereof as soon as possible to the bank having the impairment. In such event payments into the surplus fund and payments of the franchise tax prescribed by this chapter shall be determined on the basis of the net earnings remaining after providing for the payment of any such assessment. With the approval of the Secretary of the Treasury, the Governor of the Farm Credit Administration is hereby authorized to subscribe from time to time to the capital stock and/or paid-in surplus of any Federal Intermediate Credit Bank on behalf of the United States, in such amounts as he may determine are necessary for the purpose of meeting the credit needs of eligible borrowers from the bank, and the amount of the capital stock and paid-in surplus of such bank may be increased or decreased from time to time by the Governor, in accordance with such needs. Such stock shall be divided into shares of \$100 each and subscriptions to such paid-in surplus shall be made in multiples of \$100 out of the revolving fund created under subsection (e) of section 5 of the Farm Credit Act of 1933, as amended. The Governor on behalf of the United States shall make payment for stock and paid-in surplus of such bank and such payment shall be subject to call in whole or in part by the board of directors of the bank, with the approval of the Governor.】

CAPITAL STOCK

SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

(1) *Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm*

Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that is average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: Provided, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at a face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation

certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

(b) **LIEN ON STOCK AND PARTICIPATION CERTIFICATES.**—*Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: Provided, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt.*

【SEC. 206. (a) That the Farm Credit Administration shall equitably apportion the joint salaries and expenses incurred in behalf of the Federal land banks, joint-stock land banks, and Federal intermediate credit banks, and shall assess against each Federal intermediate credit bank its proportionate share of the salaries and expenses of the Farm Credit Administration made necessary in connection with the operation of this provision.

【(b) Subject only to review and approval by the Farm Credit Administration, each Federal intermediate credit bank, at the end of its fiscal year, after all its necessary expenses and costs of operation for such fiscal year have been paid or provided for, shall apply its net earnings then remaining, first, to making up any losses in excess of its reserves against unforeseen losses and assets of doubtful value; second, to the elimination of any impairment of its paid-in capital and paid-in surplus; third, to the creation and maintenance of reserves against unforeseen losses and assets of doubtful value in such amount as its board of directors may prescribe; fourth, to the payment of 25 per centum of the amount then remaining to the United States as a franchise tax; and, fifth, to the payment of the remaining net earnings into its surplus account. The amounts paid as franchise taxes to the United States by Federal intermediate credit banks shall, in the discretion of the Secretary of the Treasury, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal intermediate credit bank be dissolved or go into liquidation, after the payment of all debts and other obligations as hereinbefore provided, any surplus remaining shall be paid to and become the property of the United States and shall be similarly applied.】

APPLICATION OF EARNINGS

SEC. 206. (a) **ANNUAL APPLICATION.**—*At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to*

the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

(b) *PATRONAGE REFUNDS.*—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions appli-

cable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for co-operatives.

(c) *DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.*— In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, rediscounting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of its organization to the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.

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ACT OF JUNE 16, 1933

AN ACT To provide for organizations within the Farm Credit Administration to make loans for the production and marketing of agricultural products, to amend the Federal Farm Loan Act, to amend the Agricultural Marketing Act, to provide a market for obligations of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I

SECTION 1. This Act shall be known as the "Farm Credit Act of 1933."

* * * * *

[ESTABLISHMENT OF PRODUCTION CREDIT CORPORATIONS AND BANKS FOR COOPERATIVES

[SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the "governor", is authorized and directed to organize and charter twelve corporations to be known as "Production Credit Corporations" and twelve banks to be known as "Banks for Cooperatives." One such corporation and one such bank shall be established in each farm credit district in the city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in the

Farm Credit Act of 1937 shall be ex officio the directors of the respective production credit corporations and banks for cooperatives. Such directors shall have power, subject to the approval of the governor, to employ and fix the compensation of such officers and employees of such corporations and banks as may be necessary to carry out the powers and duties conferred upon such corporations and banks under this Act.】

SEC. 2. *The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the "Governor", is authorized and directed to organize and charter twelve banks to be known as "banks for cooperatives". One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act.*

SEC. 3. The charters of 【the Production Credit Corporations and】 the Banks for Cooperatives shall be granted by the governor upon application of the directors of the Federal land bank of the proper district, and applications and charters shall be in such form as the governor shall prescribe. The directors shall have power, subject to the approval of the governor, to adopt such bylaws as may be necessary for the conduct of the business of the 【corporations and】banks.

【CAPITAL OF PRODUCTION CREDIT CORPORATIONS

【SEC. 4. The capital stock of each Production Credit Corporation shall be in such amount as the governor determines is required for the purpose of meeting the credit needs of the district to be served by such corporation, and such amount may be increased or decreased from time to time by the governor in accordance with such credit needs. Such capital stock shall be divided into shares of \$100 each. The initial capital stock of each such corporation shall be \$7,500,000, which shall be subscribed for by the governor and held by him on behalf of the United States. Payments on subscriptions to stock by the governor shall be subject to call in whole or in part by the board of directors of the corporation with the approval of the governor. The governor shall make such payments out of the revolving fund created in section 5. The stock ownership of the United States in such corporation shall be evidenced by such means as the governor shall determine.】

SEC. 5. (a) There is hereby created a revolving fund of not to exceed 【\$120,000,000】 \$60,000,000 which shall be made up as follows:

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(b) There is hereby authorized to be appropriated the sum of \$2,000,000, which shall remain available until expended, for all necessary administrative expenses in connection with the establishment and supervision of 【the Production Credit Corporations and】 the Production Credit Associations.

* * * * *

(e) The amount of all balances, collections, and appropriations allocated under subsection (a) to the revolving fund created there-

under, which is in excess of \$120,000,000, is hereby made available to the Governor of the Farm Credit Administration for the establishment of a revolving fund of not to exceed ~~[\$40,000,000]~~ \$100,000,000. Out of such revolving fund, the Governor is authorized to allocate and, with the approval of the Secretary of the Treasury, to expend such amounts as he deems necessary for subscriptions to the capital stock [and/or paid-in surplus] of Federal Intermediate Credit Banks.

**[STOCK OWNERSHIP OF PRODUCTION CREDIT CORPORATIONS IN
PRODUCTION CREDIT ASSOCIATIONS]**

[SEC. 6. (a)] Each Production Credit Corporation shall have power to invest its funds in stock of production credit associations as provided in this section. Such corporation is authorized to subscribe and pay for class A stock in each Production Credit Association located in the district served by such corporation in amounts sufficient to maintain the amount of class A stock held by it and other holders of class A stock equal, as nearly as may be, to 20 per centum of the volume of loans made or to be made by such association, as estimated by the corporation, but at no time shall the amount of class A stock outstanding be less than \$5,000 except with the consent of the association. Notwithstanding the provisions of the preceding sentence, (1) the governor, under rules and regulations prescribed by him, may permit a Production Credit Corporation to maintain the class A holdings of stock by the corporation and other investors at such amount, in excess of 20 per centum of such loans, as may be necessary, and (2) the corporation may at any time require the association to retire and cancel stock held by the corporation in such association, if, in the judgment of the corporation, the association has resources available therefor.

[(b)] Under such rules and regulations as may be prescribed by the governor and subject to such restrictions and limitations as he may prescribe, each Production Credit Corporation is authorized to subscribe and pay for stock in production credit associations not organized under this Act if such associations are controlled by cooperative associations as defined in section 55. Only stock which is preferred as to assets on liquidation and is entitled to participate in dividend distributions without discrimination may be subscribed for. The amount of the stock subscribed for by any Production Credit Corporation in any such association shall not at any one time exceed 75 per centum of the total paid-in capital of such association.

[(c)] The amount of the excess of earnings on stock held by the corporation above amounts necessary to pay operating expenses and restore losses and impairment of capital, if any, of the corporation shall be devoted to the creation and maintenance of a surplus equal to at least 25 per centum of the paid-in capital of the corporation. The amount of the surplus shall be invested as the governor shall prescribe in direct obligations of the United States or in class A stock of Production Credit Associations, or both.

[(d)] The amount of such excess of earnings not required in order to comply with the provisions of subsection (c) shall be paid into the revolving fund heretofore authorized. Stock held by the governor in the Production Credit Corporation shall be retired upon such payment in an amount equal to the amount of such payment.

[(e) Each production credit corporation shall, at the end of each fiscal year (1) apply its earnings described in subsection (c) of this section in accordance with the provisions of subsections (e) and (d) of this section; and (2) apply its earnings from all other sources, first, to the payment of any operating expenses for the year remaining unpaid; second, to restore losses and impairment of capital, if any, of the corporation; third, to the creation and maintenance of a surplus equal to 25 per centum of the paid-in capital of the corporation; fourth, to the payment of 25 per centum of its earnings from all sources then remaining to the United States as a franchise tax, and fifth, to the payment of the remaining earnings into its surplus account.]

INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid such revolving fund.

* * * * *

SEC. 20. The governor is authorized and directed to organize and charter corporations to be known as "Production Credit Associations." Such associations may be organized by ten or more farmers desiring to borrow money under the provisions of this title. Such individuals shall enter into articles of incorporation which shall specify in general terms the objects for which the association is formed and the powers to be exercised by it in carrying out the functions conferred upon it by this Act. [Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be forwarded to the Production Credit Corporation of the district, and such copy shall be filed and preserved in its office.] *Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor.* The governor may, for good cause shown, deny a charter to such individuals. Upon the approval of such articles by the governor, the association shall become as of the date of such approval a body corporate. The governor shall have power, under rules and regulations prescribed by him, or by prescribing the terms of the charter of the association, or both, to provide for the organization, management, and conduct of the business of the association; and the power of the governor shall extend to prescribing the amount of the stock of such association; fixing the territory within which its operations may be carried on; fixing the method of election and appointment of, and the amount and payment of the compensation of, directors, officers, and employees; fixing the maximum amount of individual loans which may be made; prescribing the conditions under which the stock may be retired; and providing for the consolidation of two or more such associations. The governor may, at any time, direct such changes in the charter of any such association as he finds necessary in accomplishing the purposes of this title. Bylaws of any

such association may be adopted by the directors but shall not be valid unless approved by the governor.

SEC. 21. The stock of such associations shall be divided into shares of \$5 each; and there shall be two classes of such stock: (1) Class A stock which is to be held by **Production Credit Corporations** the Governor, and which may be purchased and held by investors, and (2) class B stock which may be purchased only by farmer borrowers from the association and individuals eligible to become borrowers. Class B stock only shall be entitled to voting rights but each holder of such stock shall be entitled to no more than one vote. No class B stock, or any interest therein or right to receive dividends thereon, shall be transferred by act of parties or operation of law except to another farmer borrower or an individual eligible to become a borrower and then only with the approval of the directors of the association. Each holder of class B stock, within two years after he has ceased to be a borrower, shall exchange such class B stock at the fair book value (not to exceed par) thereof, as determined by the association, for class A stock. Dividends may be paid on class A and class B stock without preference or on class A stock alone, as the board of directors of the association may determine, but the directors of the association may, in their discretion, apply the amount of any dividend payable to a holder of class B stock to any indebtedness of such holder to the association. Class A stock shall be preferred as to assets of the association upon liquidation. **During such time as any Production Credit Corporation is a holder of any stock of any such association, the appointment or election of directors, the secretary-treasurer, and the loan committee of such association shall be subject to the approval of the president of the Production Credit Corporation and during such time any such director, secretary-treasurer, or other officer may, at any time, be removed by the president of the Production Credit Corporation.**

SEC. 22. (a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings in excess of operating expenses (including provision for reasonable valuation reserves) during such fiscal year, first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the **production credit corporation** *Federal intermediate credit bank*.

(b) A production credit association may pay dividends of not to exceed 7 per centum per annum when such payments are approved by the **production credit corporation** *Federal intermediate credit bank* of the district and are consistent with policies established under regulations issued by the Farm Credit Administration.

SEC. 23. **Each production credit association shall, under such rules and regulations as may be prescribed by the production credit corporation of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes.** *Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers.* **Such loans shall be made on such terms and conditions, at such rates of interest, and with such security as may be prescribed by the corporation.** No.

borrower shall be indebted to the association at any one time in an amount in excess of 15 per centum of the capital and surplus of the association unless the loan has the prior approval of the [corporation] *Federal intermediate credit bank*, or in excess of 35 per centum of the capital and surplus of the association unless the loan also has the prior approval of the Farm Credit Administration. Borrowers shall be required to own, at the time the loan is made, class B stock of the association in an amount equal in fair book value (not to exceed par), as determined by the association, to \$5 per \$100 or fraction thereof of the amount of the loan. Such stock shall not be canceled or retired upon payment of the loan but may be transferred or exchanged as provided in section 21 of this Act.

* * * * *

SEC. 34. Subject to such terms and conditions as may be prescribed by the Farm Credit Administration, the Central Bank is authorized: (a) to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended, for any of the purposes and subject to the conditions and limitations set forth in such Act, as amended; (b) to make loans (by way of discount or otherwise) to banks for cooperatives organized under section 2 of this Act *or to Federal land banks or Federal intermediate credit banks*; (c) to buy from, and sell to, any such bank or any Federal intermediate credit bank any note, draft, bill of exchange, debenture, or other obligation, or any interest therein; and (d) to borrow from, and discount or rediscount paper with, any and all such banks and commercial banks.

* * * * *

SEC. 41. Subject to such terms and conditions as may be prescribed by the Farm Credit Administration, the banks for cooperatives are authorized (a) to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended, for any of the purposes and subject to the conditions and limitations set forth in such Act, as amended; (b) to make loans (by way of discount or otherwise) to any bank organized under this Act *or to Federal land banks or Federal intermediate credit banks*; (c) to buy from, and sell to, any such bank or any Federal intermediate credit bank any note, draft, bill of exchange, debenture, or other obligation, or any interest therein; and (d) to borrow from, and discount or rediscount paper with, any and all such banks and commercial banks.

* * * * *

SEC. 60. The Central Bank for Cooperatives, and [the Production Credit Corporations,] the Production Credit Associations, and the Banks for Cooperatives, organized under this Act, shall have succession, until dissolved in accordance with this or any other Act of Congress; shall have power to sue and be sued in any court, to adopt and use a corporate seal, to make contracts, to acquire, hold, and dispose of real and personal property necessary and incident to the conduct of their business, to prescribe fees and charges (which in any case shall be subject to the rules and regulations prescribed by the governor) for loans and other services; and shall have such other powers necessary and incident to carrying out their powers and duties under this or any other Act of Congress as may be provided by the governor in their charters or in any amendments thereto. Each such bank, [association, or corporation] *or association* shall, for the purposes of jurisdic-

tion, be deemed a citizen of the State or District within which its principal office is located. No district court of the United States shall have jurisdiction of any action or suit by or against any [Production Credit Corporation or] Production Credit Association upon the ground that it was incorporated under this Act or that the United States owns a majority of the stock in it, nor shall any district court of the United States within the farm credit district served by such association [or corporation] have jurisdiction by removal or otherwise of any suit by or against any such association [or corporation] except in cases by or against the United States or by or against any officer of the United States and except in cases by or against any receiver of any such [corporation or] association appointed in accordance with section 65.

SEC. 61. At least once each year and at such other times as the governor deems necessary, the Central Bank for Cooperatives, and each [Production Credit Corporation,] Production Credit Association, and Bank for Cooperatives, organized under this Act, shall be examined by examiners designated by the governor. The governor shall assess the cost of such examinations against the bank, [association, or corporation] or association examined, which shall pay such costs to the governor. The amounts so assessed and unpaid shall be a prior lien on all assets of the bank, [association, or corporation] or association examined except on assets pledged to secure loans.

SEC. 62. The Central Bank for Cooperatives, the [Production Credit Corporations,] Production Credit Associations, the Federal Farm Mortgage Corporation, and Banks for Cooperatives, organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall act as fiscal agents of the United States Government and when acting as such shall perform such duties as shall be prescribed by the Secretary of the Treasury.

SEC. 63. The Central Bank for Cooperatives, and [the Production Credit Corporations,] Production Credit Associations, and Banks for Cooperatives, organized under this Act, and their obligations, shall be deemed to be instrumentalities of the United States, and as such, any and all notes, debentures, bonds, and other such obligations issued by such banks, [associations, or corporations] or associations shall be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority. Such banks, [associations, and corporations,] and associations, their property, their franchises, capital, reserves, surplus, and other funds, and their income, shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that any real property and any tangible personal property of such banks, [associations, and corporations] and associations, shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed. [The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the production credit corporation has been retired, or with respect to the Central Bank for Cooperatives, or any production credit corporation or bank for cooperatives, or its property or income after the stock held in it by the United States has been retired.] *The exemption provided herein shall*

not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired.

SEC. 65. Upon default of any obligation of any [Production Credit Corporation,] Production Credit Association, or Bank for Cooperatives, such bank, [association, or corporation] or association may be declared insolvent and placed in the hands of a receiver by the governor and proceedings shall thereupon be had in accordance with the provisions of law relating to the insolvency of national farm-loan associations. Any such bank, [association, or corporation] or association may, with the consent of the governor, liquidate voluntarily, but only in accordance with such rules and regulations as the governor may prescribe.

* * * * *

[SEC. 86a. With the approval of the Governor of the Farm Credit Administration and under rules and regulations to be prescribed by the Production Credit Commissioner, production credit associations organized under the provisions of the Farm Credit Act of 1933 are authorized and empowered (without regard to the provisions of this Act relating to the requirement for the ownership of Class B stock or any other limitations therein contained) (1) to make loans to farmers for the purpose of enabling them to make home alterations, repairs, and improvements, (2) to sell, discount, assign, or otherwise dispose of any loans made by them under the provisions of this section, under such restrictions and limitations as to endorsement and liability as may be approved by the Governor of the Farm Credit Administration, (3) to avail themselves of the benefits of insurance under the provisions of section 2 of the National Housing Act, and (4) to do all such things as may be reasonably necessary to carry out the provisions of this section.]

* * * * *

ACT OF AUGUST 19, 1937

AN ACT To amend the Federal Farm Loan Act, to amend the Emergency Farm Mortgage Act of 1933, to amend the Farm Credit Act of 1933, to amend the Federal Farm Mortgage Corporation Act, to amend the Agricultural Marketing Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1937".

* * * * *

SEC. 5. * * *

* * * * *

(d) * * *

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(2) Notwithstanding the above provision with respect to the appointment of district directors, one additional member of said board shall be elected by each of the groups aforesaid (national farm loan associations and borrowers through agencies, production credit

associations, and cooperatives which are stockholders or subscribers to the guaranty fund of the regional bank for cooperatives of the district), and serve in lieu of a district director, under the following circumstances and conditions:

* * * * *

(B) Whenever, as determined by the Farm Credit Administration, the sum of the capital stock held by persons other than the [production credit corporation of the district] *Governor of the Farm Credit Administration*, surplus, and reserves of the production credit associations (collectively) of a farm credit district shall equal or exceed 66⅔ per centum of the total of the capital stock, surplus, and reserves of the production credit associations (collectively) of said district as of the date six months before the expiration of the term of office of the district director (or third district director) whose term next expires, the successor to such director shall be elected by the production credit associations of the district in the manner herein provided, shall be known as an elected director, and successors to that office shall be so elected and known from term to term while such conditions obtain: *Provided, That*, if and when, as determined by the Farm Credit Administration, such conditions do not obtain as of the date six months before the expiration of the term of office of any director so elected under the provisions of this subparagraph, the successor to such director shall be appointed by the Governor of the Farm Credit Administration by and with the advice and consent of the Federal Farm Credit Board, shall be known as a district director, and successors to that office shall be so appointed and known from term to term for such terms as appointment is not precluded by the election of an additional director by one of the groups aforesaid as herein provided: *And provided further*, That such production credit associations shall again and from time to time elect one additional director as aforesaid, if and when the required conditions named in this subparagraph shall be determined to obtain as aforesaid.

* * * * *

(h) Members of each farm credit board shall have been, for at least two years, residents of the district for which they are appointed or elected. From and after the date of enactment of this Act, no person shall be eligible for election or appointment as a member of any district farm credit board, and no person hereafter elected or appointed as a member of any district farm credit board shall be eligible to continue to serve as such, if in either case said person is an officer or employee of any Federal land bank, Federal intermediate credit bank, [production credit corporation,] or bank for cooperatives. No district director, excepting any third district director selected as hereinabove specified, shall, during his continuance in office, be a director, officer, or employee of any institution, association, or partnership engaged in the business of lending money or of making or selling land mortgage loans, except an institution or association under the supervision of the Farm Credit Administration.

* * * * *

SEC. 6. Each farm credit board provided for in this Act shall have power, subject to the approval of the Farm Credit Administration—

(a) To employ joint officers and employees for the Federal land bank, Federal intermediate credit bank, [production credit corporation,] and regional bank for cooperatives in its district. The salaries or other compensation of all such joint officers and employees shall be fixed by the district farm credit board and shall be paid by the Federal land bank of the district. Such bank shall be reimbursed therefor by the other [three] institutions in the district, in such amounts and upon such conditions as the board shall determine. Officers and employees appointed by the district farm credit board shall be officers and employees of the district institutions served by them.

(b) To authorize the acquisition and disposal of such property, real or personal, as may be necessary or convenient for the transaction of the business of the Federal land bank, the Federal intermediate credit bank, [the bank for cooperatives, and the production credit corporation] and the bank for cooperatives, located in its district, upon such terms and conditions as it shall fix, and to prorate among such institutions the cost of purchases, rentals, construction, repairs, alterations, maintenance, and operation, in such amounts and in such manner as it shall determine. Any lease, or any contract for the purchase or sale of property, or any deed or conveyance of property, or any contract for the construction, repair, or alteration of buildings, authorized by a district farm credit board under this subsection shall be executed by the officers of the institution or institutions concerned pursuant to the direction of such board. No provision of law relative to the acquisition or disposal of property, real or personal, by or for the United States, or relative to the making of contracts or leases by or for the United States, including the provisions set out in title 40 and title 41 of the United States Code, 1934 edition, and the Supplements thereto, and including provisions applicable to corporations wholly owned by the United States, shall be deemed or held applicable to any lease, purchase, sale, deed, conveyance, or contract authorized or made by a district farm credit board, Federal land bank, Federal intermediate credit bank, [production credit corporation,] or bank for cooperatives under this subsection.

* * * * *

AN ACT To increase farmer participation in ownership and control of the Federal Farm Credit System; to create a Federal Farm Credit Board; to abolish certain offices; to impose a franchise tax upon certain farm credit institutions; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE

SECTION 1. This Act may be cited as the "Farm Credit Act of 1953".

* * * * *

SEC. 8. The Farm Credit Administration is authorized and directed, by order or rules and regulations, to delegate to a Federal land bank such of the duties, powers, and authority of the Farm Credit Administration with respect to and over National Farm Loan Associations, their officers and employees, in the farm credit district wherein such

Federal land bank is located, as may be determined to be in the interest of effective administration; and, in like manner, to delegate to a [production credit corporation] *Federal intermediate credit bank* such of the duties, powers, and authority of the Farm Credit Administration with respect to and over production credit associations, their officers and employees, in the farm credit district wherein such [production credit corporation] *Federal intermediate credit bank* is located, as may be determined to be in the interest of effective administration; and, in either case the duties, powers, and authority so delegated shall be performed and exercised under such conditions and requirements and upon such terms as the Farm Credit Administration may specify. Any Federal land bank or [production credit corporation] *Federal intermediate credit bank* to which any such duties, powers, or authority may be delegated is hereby authorized and empowered to accept, perform, and exercise such duties, powers, and authority as may be so delegated to it.

* * * * *

SEC. 16. (a) Any other provisions of law to the contrary notwithstanding after the effective date of this Act any production credit association may, with the approval of the President of the Production Credit Corporation and of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by production credit corporations and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Production Credit Corporation) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Production Credit Corporation) and holders of class B stock shall be entitled to one vote for each share of stock held by them.]

(a) *Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: Provided, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund.*

* * * * *

DEPARTMENT OF AGRICULTURE ORGANIC ACT OF 1944 (ACT OF
SEPTEMBER 21, 1944)

AN ACT To provide for the control and eradication of certain animal and plant pests and diseases, to facilitate cooperation with the States in fire control, to provide for the more efficient protection and management of the national forests, to facilitate the carrying out of agricultural conservation and related agricultural programs, to facilitate the operation of the Farm Credit Administration and the Rural Electrification Administration, to aid in the orderly marketing of agricultural commodities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That,

* * * * *

SEC. 601. (a) The Farm Credit Administration shall, prior to the first day of each fiscal year commencing after June 30, 1944, estimate for the ensuing fiscal year the cost of examinations of the Federal land banks, national farm-loan associations, banks for cooperatives, Central Bank for Cooperatives, Federal intermediate credit banks, [production credit corporations,] and production credit associations; shall apportion the amount so determined among the Federal land banks, national farm loan associations, banks for cooperatives, Central Bank for Cooperatives, Federal intermediate credit banks, [production credit corporations,] and production credit associations on such equitable basis as said Administration shall determine; and shall assess against and collect in advance the amount so apportioned from the banks, [corporations,] and other organizations among which the apportionment is made, except that the amounts apportioned to national farm loan associations shall be assessed against and collected from the Federal land bank of the district which may in turn collect such amounts from the associations in a manner approved by the Farm Credit Administration.

(b) The Farm Credit Administration shall, prior to the first day of each fiscal year commencing after June 30, 1944, estimate the cost to it for the ensuing fiscal year of the administrative supervision of the Federal land bank system, the banks for cooperatives, the Central Bank for Cooperatives, the Federal intermediate credit banks, and the production credit system; shall apportion the amount so determined among the Federal land banks, the banks for cooperatives, the Central Bank for Cooperatives, [the Federal intermediate credit banks, and the production credit corporations] and the Federal intermediate credit banks on such equitable basis as said Administration shall determine; and shall assess against and collect in advance from such banks [and corporations] the amount so apportioned.

(c) The amounts collected pursuant to subsections (a) and (b) hereof shall be covered into the Treasury, and credited to a special fund, which fund is hereby authorized to be appropriated to said Administration for expenditure during each fiscal year for salaries and expenses applicable to examination and administrative supervision as set forth in the annual appropriation made for the same fiscal year for salaries and expenses of said Administration. As soon as practicable after the end of each such fiscal year, said Administration shall determine on a fair and reasonable basis (1) the cost of the examination services rendered during the fiscal year to each said bank, [corporation,] or other organization; and (2) the amount which fairly and equitably

should be allocated to each bank [and corporation] as the cost during the fiscal year of such administrative supervision, and if the sum of these two items in any case is greater than the total amount collected from the bank, [corporation,] or other organization, the difference shall be collected from such bank, [corporation,] or other organization, and, if less, shall be refunded from said special fund to the bank, [corporation,] or other organization entitled thereto.

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TITLE 18 OF UNITED STATES CODE

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§658. Property mortgaged or pledged to farm credit agencies.

Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use or to that of another, any property mortgaged or pledged to, or held by, the Farm Credit Administration, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation, the Secretary of Agriculture acting through the Farmers' Home Administration, any production credit association organized under sections 1131-1134m of Title 12, [or in which a Production Credit Corporation holds stock], any regional agricultural credit corporation, or any bank for cooperatives, shall be fined not more than \$5,000 or imprisoned not more than five years, or both; but if the value of such property does not exceed \$100, he shall be fined not more than \$1,000 or imprisoned not more than one year or both.

* * * * *

§ 1014. Loan and credit applications generally; renewals and discounts; crop insurance.

Whoever knowingly makes any false statement or report or willfully overvalues any land, property or security, for the purpose of influencing in any way the action of the Reconstruction Finance Corporation, Farm Credit Administration, Federal Crop Insurance Corporation, Farmers' Home Corporation, the the Secretary of Agriculture acting through the Farmers' Home Administration, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, or any division officer, or employee thereof, or of any corporation organized under sections 1131-1134m of Title 12, [or in which a Production Credit Corporation holds stock], or of any regional agricultural credit corporation established pursuant to law, or of the National Agricultural Credit Corporation, a Federal Home Loan Bank, the Federal Home Loan Bank Board, the Home Owners' Loan Corporation, a Federal Savings and Loan Association, a Federal land bank, a joint-stock land bank, a National farm loan association, or of a Federal Reserve bank, upon any application, advance, discount, purchase, purchase agreement, repurchase agreement, commitment, or loan, or any change or extension of any of the same, by renewal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

* * * * *

ACT OF DECEMBER 6, 1945

AN ACT To provide for financial control of Government corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Government Corporation Control Act".

* * * * *

SEC. 101. As used in this Act the term "wholly owned Government corporation" means the Commodity Credit Corporation; [Federal Intermediate Credit Banks; Production Credit Corporations;] Regional Agricultural Credit Corporations; Farmers Home Corporation; Federal Crop Insurance Corporation; Federal Farm Mortgage Corporation; Federal Surplus Commodities Corporation; Reconstruction Finance Corporation; Defense Plant Corporation; Defense Supplies Corporation; Metals Reserve Company; Rubber Reserve Company; War Damage Corporation; Federal National Mortgage Association; the RFC Mortgage Company; Disaster Loan Corporation; Inland Waterways Corporation; Warrior River Terminal Company; Virgin Islands Corporation; Federal Prison Industries, Incorporated; United States Spruce Production Corporation; Institute of Inter-American Affairs; Institute of Inter-American Transportation; Inter-American Educational Foundation, Incorporated; Inter-American Navigation Corporation; Prencinradio, Incorporated; Cargoes, Incorporated; Export-Import Bank of Washington; Petroleum Reserves Corporation; Rubber Development Corporation; U. S. Commercial Company, Smaller War Plants Corporation; Federal Public Housing Authority (or Public Housing Administration) and including public housing projects financed from appropriated funds and operations thereof; Defense Homes Corporation; Federal Savings and Loan Insurance Corporation; Home Owners' Loan Corporation; United States Housing Corporation; Federal Housing Administration; Saint Lawrence Seaway Development Corporation; Panama Canal Company; Tennessee Valley Authority; and Tennessee Valley Associated Cooperatives, Incorporated.

* * * * *

SEC. 201. As used in this Act the term "mixed-ownership Government corporations" means (1) the Central Bank for Cooperatives and the Regional Banks for Cooperatives, (2) Federal Land Banks, (3) *Federal Intermediate Credit Banks*, (4) Federal Home Loan Banks, and [(4)] (5) Federal Deposit Insurance Corporation.

* * * * *

SEC. 302. The banking or checking accounts of all wholly owned and mixed-ownership Government corporations shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve bank, or with a bank designated as a depository or fiscal agent of the United States: *Provided*, That the Secretary of the Treasury may waive the requirements of this section under such conditions as he may determine: *And provided further*, That this section will not apply to the establishment and maintenance in any bank for a temporary period of banking and checking accounts not in excess of \$50,000 in any one bank. The provisions of this section shall not be applicable to Federal Inter-

mediate Credit Banks, [Production Credit Corporations,] the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to report annually to the Secretary of the Treasury the names of the depositaries in which such corporation keeps a banking or checking account, and the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress which he deems advisable upon receipt of any such annual report.

SEC. 303. (a) All bonds, notes, debentures, and other similar obligations which are hereafter issued by any wholly owned or mixed-ownership Government corporation and offered to the public shall be in such forms and denominations, shall have such maturities, shall bear such rates of interest, shall be subject to such terms and conditions, shall be issued in such manner and at such times and sold at such prices as have been or as may be approved by the Secretary of the Treasury.

(b) Hereafter, no wholly owned or mixed-ownership Government corporation shall sell or purchase any direct obligation of the United States or obligation guaranteed as to principal or interest, or both, for its own account and in its own right and interest, at any one time aggregating in excess of \$100,000, without the approval of the Secretary of the Treasury: *Provided*, That the Secretary of the Treasury may waive the requirement of his approval with respect to any transaction or classes of transactions subject to the provisions of this subsection for such period of time and under such conditions as he may determine.

(c) The Secretary of the Treasury is hereby authorized to exercise any of the functions vested in him by this section through any officer, or employee of any Federal agency whom he may designate, with the concurrence of the head of the agency concerned, for such purpose.

(d) Any mixed-ownership Government corporation from which Government capital has been entirely withdrawn shall not be subject to the provisions of section 302 or of this section during the period such corporation remains without Government capital. The provisions of subsections (a) and (b) of this section shall not be applicable to Federal Intermediate Credit Banks, [Production Credit Corporations,] the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to consult with the Secretary of the Treasury prior to taking any action of the kind covered by the provisions of subsections (a) and (b) of this section, and in the event an agreement is not reached, the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress stating the grounds for his disagreement.

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REVISED STATUTES OF THE UNITED STATES

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SEC. 5136. * * *

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Seventh. (Last two sentences only.)

* * * * *

The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the *thirteen banks for cooperatives or any of them or the Federal Home Loan Banks or the Home Owners' Loan Corporation*, or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations of the Federal National Mortgage Association, or such obligations of any local public agency (as defined in section 110 (h) of the Housing Act of 1949) as are secured by an agreement between the local public agency and the Housing and Home Finance Administrator in which the local public agency agrees to borrow from said Administrator, and said Administrator agrees to lend to said local public agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or such obligations of a public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured either (1) by an agreement between the public housing agency and the Public Housing Administration in which the public housing agency agrees to borrow from the Public Housing Administration, and the Public Housing Administration agrees to lend to the public housing agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or (2) by a pledge of annual contributions under an annual contributions contract between such public housing agency and the Public Housing Administration if such contract shall contain the covenant by the Public Housing Administration which is authorized by subsection (b) of section 22 of the United States Housing Act of 1937, as amended, and if the maximum sum and the maximum period specified in such contract pursuant to said subsection 22 (b) shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on such obligations: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus. [The limitations and restrictions herein contained as to

dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development or the thirteen banks for cooperatives organized under the Farm Credit Act of 1933, or any of them which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall at any one time hold obligations issued by either of said banks as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount, with respect to each issuer, exceeding 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund. **§** *The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: Provided, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund.*

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84TH CONGRESS
2^D SESSION

H. R. 10285

[Report No. 2160]

IN THE HOUSE OF REPRESENTATIVES

MARCH 29, 1956

Mr. COOLEY introduced the following bill; which was referred to the Committee on Agriculture

MAY 14, 1956

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

DECLARATION OF POLICY

5
6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculture with a sound, dependable,
8 and effective source of credit; to promote the efficiency of the
9 farm credit system by merging production credit corporations

1 in Federal intermediate credit banks and to facilitate ~~farmer~~
 2 ~~ownership~~ *increased farmer participation in the manage-*
 3 *ment, control, and ownership* of the merged banks and re-
 4 tirement of Government capital therein; to encourage and
 5 promote the continued growth and development of the pro-
 6 duction credit associations as self-supporting cooperative
 7 lending institutions operating on a sound credit basis with
 8 maximum local authority to determine credit needs and loan
 9 policies consistent with the maintenance of a national pro-
 10 duction credit system; and to continue to provide other
 11 financing institutions making loans to farmers and ranchers
 12 with the right to borrow from and rediscount with such
 13 merged banks on a basis comparable with the production
 14 credit associations regardless of the ownership of such banks.
 15 The provisions of this Act shall be construed in keeping
 16 with this declaration of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
 19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
 20 TRANSFER OF ASSETS.—The production credit corporation in
 21 each farm credit district is hereby merged in the Federal
 22 intermediate credit bank of the district and all assets, funds,
 23 contracts, property, and records belonging to such corpora-
 24 tion, except stock in production credit associations, are
 25 hereby transferred to and vested in such bank. All obliga-

1 tions and liabilities of the production credit corporation shall
2 be assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration ~~to be held by him~~
6 ~~on behalf of the United States~~, and the Governor shall can-
7 cel an equal par amount of stock of the corporation.

8 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
9 CREDIT ASSOCIATIONS.—In order to carry out the declared
10 policy of this Act with respect to the production credit asso-
11 ciations, the Farm Credit Administration shall, by appropri-
12 ate provisions in the charter and bylaws, or otherwise, pro-
13 vide for such organization and assignment of functions within
14 the Federal intermediate credit banks as will assure proper
15 supervision of and assistance to the production credit associa-
16 tions in a manner which will enable them to make sound
17 credit available to farmers and ranchers. The income de-
18 rived from the surplus transferred from the production credit
19 corporation to the Federal intermediate credit bank of the
20 district shall be used to pay expenses of the bank in pro-
21 viding such supervision and assistance, and expenses in ex-
22 cess of such income may be paid out of other resources of
23 the bank.

24 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
25 other provision of law, the employment of the officers and

1 employees of each Federal intermediate credit bank and
2 each production credit corporation is terminated on the effec-
3 tive date of this Act and the board of directors of the Federal
4 intermediate credit bank shall, not later than sixty days prior
5 to the effective date of this Act, take all necessary action
6 to reemploy as of such effective date such of the officers and
7 employees so terminated in such capacities as the board
8 determines they are qualified and needed to carry out the
9 functions, powers, and duties of the Federal intermediate
10 credit bank. Such reemployment shall be subject to the
11 approval of the Farm Credit Administration.

12 SEC. 102. Section 205 of the Federal Farm Loan Act,
13 as amended, is amended to read as follows:

14 "CAPITAL STOCK

15 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
16 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
17 intermediate credit bank is authorized to issue class A and
18 class B stock as follows:

19 "(1) Class A stock shall have a par value of \$100
20 per share and shall be issued to and held by the Governor
21 of the Farm Credit Administration on behalf of the United
22 States. Stock of all Federal intermediate credit banks held
23 by the Secretary of the Treasury shall be transferred to the
24 as he determines necessary to meet the needs of the respec-
25 Governor and may be reallocated by him in such manner

1 tive banks. The Governor shall then exchange such stock
2 of each bank for an equal par amount of class A stock of
3 the bank. Stock of each production credit corporation held
4 by the Governor (less the amount canceled pursuant to
5 section 101 of the Farm Credit Act of 1956) shall be
6 exchanged for an equal par amount of class A stock of
7 the Federal intermediate credit bank in which such corpora-
8 tion is merged pursuant to section 101 of such Act. No
9 dividends shall be paid on class A stock. Annually at the
10 end of its fiscal year each such bank shall determine the
11 amount of its class A stock which shall be retired. When-
12 ever the total of the capital stock, participation certificates,
13 surplus, and reserves of the bank is more than one-sixth
14 of the highest month-end balance of debentures and other
15 obligations issued by or for the bank, outstanding during
16 the immediately preceding five years, the minimum amount
17 of class A stock to be retired shall be the total amount of
18 class B stock and participation certificates issued for that
19 year. All class A stock shall be retired at par. The pro-
20 ceeds of such class A stock retirements of each bank shall
21 be paid into the Treasury as miscellaneous receipts until
22 there is so paid a sum equal to the amount of class A stock
23 of the bank issued in exchange for stock of the production
24 credit corporation. The proceeds of any further such stock
25 retirements shall be paid into the revolving fund established

1 by section 5 (e) of the Farm Credit Act of 1933, as
2 amended. The Governor of the Farm Credit Administra-
3 tion is authorized to purchase from time to time class A
4 stock in any bank in such amount as he determines is needed
5 to meet the credit needs of the bank and such revolving
6 fund shall continue to be available for such purchases as
7 provided in said section 5 (e). The Governor may at any
8 time require the bank to retire such class A stock if, in
9 his judgment, the bank has resources available therefor,
10 and the proceeds of such retirements shall be returned to
11 such revolving fund.

12 “(2) Class B stock shall have a par value of \$5 per
13 share and may be issued only to production credit associations
14 in series and amounts approved by the Farm Credit Admin-
15 istration. Such stock shall be issued only at par and may
16 be transferred to another production credit association with
17 the approval of the issuing bank. Whenever a bank has no
18 class A stock outstanding it may pay like dividends on class
19 B stock and participation certificates in an amount not to
20 exceed 5 per centum in any year if declared by the board
21 of directors. Dividends on class B stock and participation
22 certificates shall not be cumulative. Within sixty days after
23 the effective date of the Farm Credit Act of 1956, the pro-
24 duction credit associations shall subscribe to class B stock
25 in the banks in an aggregate amount equal to 15 per centum

1 of the total amount of class A stock in all banks. Such
2 required amount of subscriptions shall be allotted among the
3 several districts in the proportion that the average amount
4 of the bank's loans to and discounts for the production credit
5 associations of the district, outstanding during the imme-
6 diately preceding five fiscal years, is of the average of such
7 loans and discounts of all banks outstanding during such five-
8 year period. The amount so allotted to each district shall be
9 further allotted to each production credit association on the
10 basis of the proportion that its average indebtedness (loans
11 and discounts) to the bank during the immediately preceding
12 five fiscal years is of the average of such indebtedness of all
13 production credit associations to the bank during such five-
14 year period. Each production credit association shall sub-
15 scribe to class B stock in the bank of the district in the
16 amount so allotted to it. One-third of the purchase price
17 of such stock subscription shall be paid at the time of such
18 subscription, one-third shall be paid within one year after
19 the effective date of said Act, and the balance shall be paid
20 within two years after such effective date. Such class B
21 stock shall be issued as payments therefor are made. Any
22 production credit association chartered after the effective date
23 of the Farm Credit Act of 1956 shall thereupon purchase
24 class B stock in the bank in the amount of \$5,000, and
25 such amount shall be adjusted at the end of five years there-

1 after to an amount determined by applying to its average in-
2 debtedness to the bank during such five-year period the
3 same percentage as the percentage which the initial sub-
4 scriptions of other production credit associations was of
5 their indebtedness, as provided in this subsection: *Provided,*
6 That this provision shall not apply to any association owning
7 stock in the bank in such required amount as a result of
8 merger, consolidation, or reorganization of one or more
9 associations. After all class A stock has been retired, the
10 bank may retire class B stock at par and participation cer-
11 tificates at a face amount under policies established by the
12 Farm Credit Administration. Class B stock and participa-
13 tion certificates shall be retired without preference and in
14 such manner that the oldest outstanding stock or certificates
15 at any given time will be retired first. In case of liquida-
16 tion or dissolution of any production credit association or
17 other financing institution, the stock or participation cer-
18 tificates of the bank owned by such association or institu-
19 tion may be retired by the bank at the fair book value thereof,
20 not exceeding par or face amount, as the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have a
23 first lien on all stock in the bank owned by each production
24 credit association and on all participation certificates owned
25 by other financing institutions as additional collateral for any

1 indebtedness of the holders thereof to the bank: *Provided*,
2 That the bank shall make no loan or advance on the security
3 of its own stock or participation certificates. In any case
4 where the debt of a production credit association or other
5 financing institution is in default, the bank may retire and
6 cancel all or a part of the stock of the bank held by the
7 association or of the participation certificates held by the
8 other financing institution at the fair book value thereof,
9 not exceeding par or face amount, as the case may be, in
10 total or partial liquidation of the debt.”

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
12 as amended, is hereby amended to read as follows:

13 “APPLICATION OF EARNINGS

14 “SEC. 206. (a) ANNUAL APPLICATION.—At the end
15 of its fiscal year, each Federal intermediate credit bank shall
16 determine the amount of its net earnings after paying or
17 providing for all operating expenses (including reasonable
18 valuation reserves and losses in excess of any such applicable
19 reserves) and shall apply such net earnings as follows: (1)
20 To the restoration of the amount of the impairment, if any,
21 of capital stock and participation certificates, as determined
22 by its board of directors; (2) to the restoration of the amount
23 of the impairment, if any, of the surplus account established
24 by this subsection, as determined by its board of directors;

1 (3) 25 per centum of any remaining earnings shall be used
2 to create and maintain a reserve account equal to 25 per
3 centum of the outstanding capital stock and participation
4 certificates of the bank; (4) if said bank shall have out-
5 standing capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay
7 to the United States as a franchise tax, a sum equal to 25
8 per centum of its earnings then remaining, not exceeding,
9 however, a rate of return on such Government capital cal-
10 culated at a rate equal to the computed average annual rate
11 of interest on all public issues of public debt obligations of
12 the United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsec-
19 tion (b) of this section. Notwithstanding the provisions of
20 item (3) of this subsection, if at the end of any fiscal year
21 the sum of the surplus and the reserve account of any bank
22 is less than its outstanding capital stock and participation
23 certificates, the bank shall continue to apply such 25 per
24 centum of its net earnings to the reserve account until the
25 sum of the surplus and the reserve account is equal to its

1 outstanding capital stock and participation certificates. Each
2 bank shall, on the effective date of the Farm Credit Act
3 of 1956, establish a surplus account consisting of its earned
4 surplus account, its reserve for contingencies, and the surplus
5 of the production credit corporation transferred to the bank.
6 No part of such surplus of any bank shall be distributed as
7 patronage refunds. In the event of a net loss in any fiscal
8 year after providing for all operating expenses (including
9 reasonable valuation reserves and losses in excess of any such
10 applicable reserves), such loss shall be absorbed by: first;
11 charges to the reserve account; second, charges to surplus
12 other than that transferred from the production credit cor-
13 poration of the district; third, charges to surplus transferred
14 from the production credit corporation of the district; fourth,
15 the impairment of class B stock and participation certificates;
16 and fifth, the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end of
18 its fiscal year a Federal intermediate credit bank has class A
19 stock outstanding, patronage refunds declared for that year
20 shall be paid in class B stock to production credit associations
21 and in participation certificates to other financing institutions
22 borrowing from or rediscounting with the bank during the
23 fiscal year for which such refunds are declared. The recipi-
24 ents of such patronage refunds shall not be subject to Federal
25 income taxes thereon. Whenever at the end of its fiscal year

1 a Federal intermediate credit bank has no class A stock
2 outstanding, patronage refunds declared for that year may
3 be paid in such class B stock and participation certificates or
4 in cash as determined by the bank. All patronage refunds
5 shall be paid in the proportion that the amount of interest
6 earned by the bank on its loans to and discounts for each
7 production credit association or other financing institution
8 bears to the total interest earned by the bank on all such
9 loans and discounts outstanding during the fiscal year. Each
10 participation certificate issued in payment of patronage re-
11 funds shall be in multiples of \$5 and shall state on its face the
12 rights, privileges, and conditions applicable thereto. Patron-
13 age refunds shall not be paid to any other Federal inter-
14 mediate credit bank, or to any Federal land bank or bank
15 for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after the payment or
19 retirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any surplus
22 established pursuant to subsection (a) of this section shall be
23 paid to the holders of class A and class B stock pro rata, and
24 any remaining assets shall be distributed to the holders of
25 class B stock and the holders of participation certificates pro

1 ~~rata.~~ In the case of liquidation or dissolution of any Fed-
2 eral intermediate credit bank, after payment or retirement, as
3 the case may be, first, of all liabilities; second, of all class A
4 stock at par; third, of all class B stock at par and all par-
5 ticipation certificates at face amount; any remaining assets
6 of the bank shall be distributed as provided in this subsec-
7 tion. Any of the surplus established pursuant to subsection
8 (a) of this section (excluding that transferred from the pro-
9 duction credit corporation of the district) which the Farm
10 Credit Administration determines was contributed by
11 financing institutions, other than the production credit asso-
12 ciations, rediscounting with or borrowing from the bank on
13 the effective date of the Farm Credit Act of 1956 shall be
14 paid to such institutions, or their successors in interest as de-
15 termined by the Farm Credit Administration, and the re-
16 maining portion of such surplus (including that transferred
17 from the production credit corporation of the district) shall
18 be paid to the holders of class A and class B stock pro rata.
19 The contribution of each such financing institution under the
20 preceding sentence shall be computed on the basis of the ratio
21 of its patronage to the total patronage of the bank from the
22 date of organization of the bank to the effective date of the
23 Farm Credit Act of 1956. Any assets of the bank then re-

1 *maining shall be distributed to the holders of class B stock*
2 *and the holders of participation certificates pro rata."*

3 SEC. 104. (a) Section 201 (b) of the Federal Farm
4 Loan Act, as amended, is hereby amended by adding at the
5 end thereof the following sentence: "The directors shall have
6 power, subject to the approval of the Farm Credit Adminis-
7 tration, to adopt such bylaws as may be necessary for the
8 conduct of the business of the banks."

9 (b) Section 202 (a) of the Federal Farm Loan Act,
10 as amended, is hereby amended to read as follows:

11 "SEC. 202. (a) The Federal intermediate credit banks,
12 when chartered and established, shall have power, subject
13 solely to the restrictions, limitations, and conditions contained
14 in this Act or as may be prescribed by the Farm Credit Ad-
15 ministration not inconsistent with the provisions of this Act—

16 "(1) to discount for, or purchase from, any produc-
17 tion credit association organized under the Farm Credit
18 Act of 1933, as amended, with its endorsement, any
19 note, draft, or other such obligation presented by such
20 association; and to make loans and advances to any such
21 association secured by such collateral as may be ap-
22 proved by the Governor of the Farm Credit Ad-
23 ministration;

24 "(2) to discount for, or purchase from, any national
25 bank, State bank, trust company, agricultural credit

1 corporation, incorporated livestock loan company, sav-
2 ings institution, credit union, and any association of agri-
3 cultural producers engaged in the making of loans to
4 farmers and ranchers, with its endorsement, any note,
5 draft, or other such obligation the proceeds of which
6 have been advanced or used in the first instance for
7 any agricultural purpose, including the breeding, raising,
8 fattening, or marketing of livestock; and to make loans
9 and advances to any such financing institution secured
10 by such collateral as may be approved by the Governor
11 of the Farm Credit Administration: *Provided*, That no
12 such loan or advance shall be made upon the security of
13 collateral other than notes or other such obligations of
14 farmers and ranchers eligible for discount or purchase
15 under the provisions of this section, unless such loan
16 or advance is made to enable the financing institution to
17 make or carry loans for any agricultural purpose; and

18 “(3) to make loans to and discount paper for any
19 other Federal intermediate credit bank, any Federal land
20 bank, or any bank for cooperatives organized under the
21 Farm Credit Act of 1933, as amended, all upon terms
22 and at rates of interest or discount approved by the Farm
23 Credit Administration.”

24 (c) Section 202 (c) of the Federal Farm Loan Act,

1 as amended, is amended by changing the word "three" to
2 the word "~~seven~~" "*five*".

3 (d) Section 204 (a) of the Federal Farm Loan Act,
4 as amended, is amended to read as follows:

5 "SEC. 204. (a) Loans and discounts by any Federal
6 intermediate credit bank shall bear such rates of interest
7 or discount as the board of directors of the bank shall from
8 time to time determine with the approval of the Farm Credit
9 Administration, but the rates charged financing institutions
10 other than production credit associations shall be the same
11 as those charged production credit associations."

12 ~~(e) Section 204 (b) of the Federal Farm Loan Act~~
13 ~~is hereby repealed.~~

14 ~~(f) (e)~~ Section 13 of the Federal Farm Loan Act, as
15 amended, is hereby amended by inserting in paragraph
16 "Seventeenth", after the words "Federal land banks", a
17 comma and the words "to Federal intermediate credit banks,
18 or to banks for cooperatives organized under the Farm
19 Credit Act of 1933, as amended,".

20 (f) Section 203 of the Federal Farm Loan Act, as
21 amended, is amended (i) by inserting in subsection (a)
22 thereof, after the words "outstanding consolidated debentures"
23 the words "or other similar obligations"; and (ii) by insert-
24 ing in subsections (d) and (e) thereof, after the word

1 *“debentures” wherever used therein, except in the last sentence*
2 *of subsection (d), the words “or other similar obligations”.*

3 SEC. 105. (a) Section 2 of the Farm Credit Act of
4 1933, as amended, is amended to read as follows:

5 “SEC. 2. The Governor of the Farm Credit Administra-
6 tion, hereinafter in this Act referred to as the ‘Governor’,
7 is authorized and directed to organize and charter twelve
8 banks to be known as ‘banks for cooperatives’. One such
9 bank shall be established in each city in which there is
10 located a Federal land bank. The members of the several
11 farm credit boards of the farm credit districts provided for
12 in section 5 of the Farm Credit Act of 1937, as amended,
13 shall be ex officio the directors of the respective banks for
14 cooperatives. Such directors shall have power, subject to
15 the approval of the Governor, to employ and fix the compen-
16 sation of such officers and employees of such banks as may
17 be necessary to carry out the powers and duties conferred
18 upon such banks under this Act.”

19 (b) Section 3 of the Farm Credit Act of 1933 is
20 amended by striking from the first sentence the words “the
21 production credit corporations and” and by striking from
22 the second sentence the words “corporations and”.

23 (c) Section 4 of the Farm Credit Act of 1933 is hereby
24 repealed.

1 (d) Section 5 of the Farm Credit Act of 1933, as
 2 amended, is amended (1) by changing "\$120,000,000" in
 3 subsection (a) thereof to "\$60,000,000"; (2) by striking
 4 from subsection (b) thereof the words "the production credit
 5 corporations and"; (3) by changing "\$40,000,000" in sub-
 6 section (e) thereof to "\$100,000,000"; and (4) by striking
 7 from subsection (e) thereof the words "and/or paid-in
 8 surplus".

9 (e) Section 6 of the Farm Credit Act of 1933, as
 10 amended, is amended to read as follows:

11 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
 12 CREDIT ASSOCIATIONS

13 "SEC. 6. The Governor may purchase class A stock of
 14 any production credit association in such amounts as he
 15 determines are required to meet the credit needs of farmers
 16 in the area served by such association. Payments for such
 17 stock purchased by the Governor shall be made out of the
 18 revolving fund authorized by section 5 (a) of this Act and
 19 such stock shall be held by him on behalf of the United
 20 States. The Governor may at any time require any produc-
 21 tion credit association to retire and cancel any class A stock
 22 held by him in such association if, in his judgment, the
 23 association has resources available therefor, and the proceeds
 24 of such stock retirements shall be paid into such revolving
 25 fund."

1 (f) Section 20 of the Farm Credit Act of 1933 is
2 amended by changing the fourth sentence to read as fol-
3 lows: "Such articles shall be signed by the individuals unit-
4 ing to form the association and a copy thereof shall be
5 furnished to the Governor."

6 (g) Section 21 of the Farm Credit Act of 1933, as
7 amended, is amended (1) by striking from the first sentence
8 the words "production credit corporations" and substituting
9 in lieu thereof the words "the Governor"; and (2) by
10 deleting the last sentence thereof.

11 (h) Section 22 of the Farm Credit Act of 1933, as
12 amended, is amended by striking out the words "production
13 credit corporation", wherever they appear therein, and sub-
14 stituting in lieu thereof "Federal intermediate credit bank".

15 (i) Section 23 of the Farm Credit Act of 1933, as
16 amended, is amended (1) by changing the first sentence
17 to read as follows: "Each production credit association shall,
18 under such rules and regulations as may be prescribed by
19 the farm credit board of the district with the approval of
20 the Farm Credit Administration, invest its funds and make
21 loans to farmers for general agricultural purposes and other
22 requirements of the ~~borrowers~~ *borrowers*."; (2) by deleting
23 the second sentence; *and* (3) by striking from the third
24 sentence the word "corporation" and inserting in lieu thereof
25 the words "Federal intermediate credit ~~bank~~"; ~~and (4) by~~

1 changing the period at the end of next to the last sentence
2 to a colon and adding the following: "*Provided, That an*
3 *association may, under rules and regulations issued by the*
4 *Farm Credit Administration, make loans to any class B*
5 *stockholder secured by warehouse receipts covering agri-*
6 *cultural commodities stored in bonded warehouses without*
7 *the purchase of additional class B stock."* bank".

8 (j) Section 34 of the Farm Credit Act of 1933, as
9 amended, is hereby amended by adding before the semicolon
10 at the end of "(b)" the words "or to Federal land banks or
11 Federal intermediate credit banks".

12 (k) Section 41 of the Farm Credit Act of 1933, as
13 amended, is hereby amended by adding before the semicolon
14 at the end of "(b)" the words "or to Federal land banks
15 or Federal intermediate credit banks".

16 (l) Section 60 of the Farm Credit Act of 1933, as
17 amended, is amended (1) by striking from the first sentence
18 the words "the production credit corporations,"; (2) by
19 striking from the second sentence the words "association, or
20 corporation" and substituting in lieu thereof the words "or
21 association"; and (3) by striking from the third sentence
22 the words "production credit corporation or", "or corpora-
23 tion", and "corporation or", wherever they appear therein.

24 (m) Section 61 of the Farm Credit Act of 1933 is
25 amended (1) by striking from the first sentence the words

1 “production credit corporation,”; and (2) by striking from
2 the second and third sentences the words “association, or
3 corporation”, wherever they appear therein, and substituting
4 in lieu thereof the words “or association”.

5 (n) Section 62 of the Farm Credit Act of 1933, as
6 amended, is amended by striking out the words “production
7 credit corporations,”.

8 (o) Section 63 of the Farm Credit Act of 1933, as
9 amended, is amended (1) by striking from the first sentence
10 the words “the production credit corporations,”; (2) by
11 striking from the first and second sentences the words “asso-
12 ciations, or corporations” and “associations, and corpora-
13 tions,” and substituting in lieu thereof, the words “or associ-
14 ations” and “and associations,” respectively; and (3) by
15 changing the last sentence to read as follows: “The exemp-
16 tion provided herein shall not apply with respect to any
17 production credit association or its property or income after
18 the class A stock held in it by the Governor has been retired,
19 or with respect to any bank for cooperatives or its property
20 or income after the stock held in it by the United States
21 has been retired.”

22 (p) Section 65 of the Farm Credit Act of 1933, as
23 amended, is amended (1) by striking out the words “pro-
24 duction credit corporation,”; and (2) by striking out the
25 words “association or corporation”, wherever they appear

1 therein, and substituting in lieu thereof the words "or
2 association".

3 (q) Section 86a of the Farm Credit Act of 1933 is
4 hereby repealed.

5 SEC. 106. (a) Section 5 of the Farm Credit Act of
6 1937, as amended, is amended (1) by striking from sub-
7 section (d) (2) (B) the words "production credit cor-
8 poration of the district" and substituting in lieu thereof the
9 words "Governor of the Farm Credit Administration"; and
10 (2) by striking from subsection (h) the words "production
11 credit corporation,".

12 (b) Section 6 of the Farm Credit Act of 1937 is
13 amended (1) by striking from the first sentence of subsec-
14 tion (a) the words "production credit corporation,"; (2)
15 by striking from the third sentence of subsection (a) the
16 word "three"; (3) by striking from the first sentence of
17 subsection (b) the words "the bank for cooperatives, and
18 the production credit corporation" and substituting in lieu
19 thereof the words "and the bank for cooperatives"; and (4)
20 by striking from the last sentence of subsection (b) the
21 words "production credit corporation,".

22 SEC. 107. (a) Section 8 of the Farm Credit Act of
23 1953 is amended by striking out the words "production credit
24 corporation", wherever they appear therein, and substituting
25 in lieu thereof the words "Federal intermediate credit bank".

1 (b) Subsection (a) of section 16 of the Farm Credit
2 Act of 1953 is amended to read as follows:

3 “(a) Any other provisions of law to the contrary not-
4 withstanding, after the effective date of this Act any produc-
5 tion credit association may, with the approval of the Farm
6 Credit Administration, issue nonvoting preferred stock, to be
7 known as class C stock, which may be purchased and held
8 by the Governor of the Farm Credit Administration and by
9 investors: *Provided*, That the issuance of such stock shall be
10 authorized by vote of not less than two-thirds of the outstand-
11 ing shares of class A stock of the association (other than
12 shares held by the Governor of the Farm Credit Adminis-
13 tration) by the holders thereof in person or by proxy and
14 by vote of not less than two-thirds of the outstanding shares
15 of class B stock of the association by the holders thereof in
16 person or by proxy; and for this purpose holders of class A
17 stock (other than the Governor of the Farm Credit Ad-
18 ministration) and holders of class B stock shall be entitled
19 to one vote for each share of stock held by them. Payments
20 for such stock purchased by the Governor shall be made out
21 of the revolving fund created by section 5 (a) of the Farm
22 Credit Act of 1933, as amended, and the proceeds from the
23 retirement of any such stock shall be paid into such revolving
24 fund.”

25 SEC. 108. Section 601 of the Department of Agriculture

1 Organic Act of 1944, as amended, is hereby amended (1)
2 by striking from subsection (a) the words "production
3 credit corporations," wherever they appear therein, and
4 the word "corporations,"; (2) by striking from subsection
5 (b) the words "the Federal intermediate credit banks, and
6 the production credit corporations" and substituting in lieu
7 thereof the words "and the Federal intermediate credit
8 banks"; and (3) by striking from subsections (b) and (c)
9 the words "and corporation", "and corporations", and "cor-
10 poration," wherever they appear therein.

11 SEC. 109. Sections 658 and 1014 of title 18, United
12 States Code, are hereby amended by striking from each
13 such section the words "or in which a production credit
14 corporation holds stock".

15 TITLE II—MISCELLANEOUS PROVISIONS

16 SEC. 201. (a) The Government Corporation Control
17 Act, as amended, is amended (1) by striking from section
18 101 the words "Federal Intermediate Credit Banks; Pro-
19 duction Credit Corporations,"; (2) by inserting in section
20 201 immediately following "(3)" the words "Federal Inter-
21 mediate Credit Banks, (4)"; (3) by changing "(4)" in
22 section 201 to "(5)"; and (4) by striking from sections
23 302 and 303 the words "production credit corporations,".

24 (b) After the effective date of this Act, the Federal
25 intermediate credit banks may utilize their funds for ad-

1 ministrative expenses without regard to the limitations con-
2 tained in any other Act of Congress governing the expendi-
3 ture of appropriated funds.

4 (c) Paragraph Seventh of section 5136 of the Revised
5 Statutes as amended, is amended (1) by inserting in next
6 to the last sentence immediately before the words "Federal
7 Home Loan Banks", the words "thirteen banks for coopera-
8 tives or any of them or the"; and (2) by changing the last
9 sentence to read as follows: "The limitations and restrictions
10 herein contained as to dealing in and underwriting invest-
11 ment securities shall not apply to obligations issued by the
12 International Bank for Reconstruction and Development
13 which are at the time eligible for purchase by a national bank
14 for its own account: *Provided*, That no association shall
15 hold obligations issued by said bank as a result of under-
16 writing, dealing, or purchasing for its own account (and for
17 this purpose obligations as to which it is under commitment
18 shall be deemed to be held by it) in a total amount exceed-
19 ing at any one time 10 per centum of its capital stock ac-
20 tually paid in and unimpaired and 10 per centum of its
21 unimpaired surplus fund."

22 SEC. 202. (a) This Act shall become effective on Jan-
23 uary 1 next following its enactment.

24 (b) For purposes of applying the amendment in sec-
25 tion 103 of this Act, that part of the fiscal year 1957 pre-

1 ceding the effective date of this Act shall be deemed to be a
2 separate fiscal year.

3 SEC. 203. (a) If any provision of this Act, or the ap-
4 plication thereof to any person or circumstance, is held
5 invalid, the remainder of the Act, and the application of such
6 provisions to other persons or circumstances, shall not be
7 affected thereby.

8 (b) The right to alter, amend, or repeal this Act is
9 hereby expressly reserved.



[Report No. 2160]

A BILL

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

By Mr. COOLEY

MARCH 29, 1956

Referred to the Committee on Agriculture

MAY 14, 1956

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

May 17, 1956

12. FARM LOANS. The Rules Committee reported a resolution for the consideration of H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. pp. 7529, 7579
13. WATER. The Public Works Committee ordered reported H. R. 9540, to extend and strengthen the Water Pollution Control Act. p. D493
14. RESEARCH. Received from this Department a report on the receipts, expenditures, and work of the various agricultural experiment stations in the U. S. and possessions; to the Agriculture Committee. p. 7579
15. POSTAL SERVICE. Rep. Preston criticized this Administration for the discontinuance of certain small post offices, as being a disservice to the rural population. p. 7532
16. FOREIGN AID. Rep. Bow criticized the further expenditure of funds for foreign aid, and related the costs of foreign aid to one particular county in Ohio. p. 7532
17. FOREIGN TRADE. Rep. Philbin criticized the importation of certain textile products as being harmful to the domestic industry, and urged that efforts be taken to control imports of certain textile products. p. 7576
18. LEGISLATIVE PROGRAM. Rep. McCormack outlined the following program for next week, May 21 to 25: Mon., Private and Consent Calendars, and Export Control Act; balance of the week, public works appropriation bill for 1957, bill to extend the Defense Production Act, and possibly the bill to extend the Mutual Security Act. p. 7556
19. ADJOURNED until Mon., May 21. pp. 7578, 7579

BILLS INTRODUCED

20. ELECTRIFICATION. H. R. 11299, by Rep. Davidson, to authorize certain works of improvement for power, etc., in the Niagara River; to Public Works Committee.
21. FARM LOANS. H. R. 11301, by Rep. Garmatz, and H. R. 11304, by Rep. Roosevelt, to extend for an additional 6 years the authority to make, guarantee, and insure loans under title 3 of the Servicemen's Readjustment Act; to Veterans' Affairs Committee.
22. FISHERIES. H. R. 11309, by Rep. Magnuson, to stabilize the fisheries industry, establish a Fisheries Division and Fisheries Commission in the Interior Department, etc.; to Merchant Marine and Fisheries Committee.

ITEMS IN APPENDIX

23. FARM PROGRAM. Sen. Langer inserted the record of the GTA Daily Radio Roundup contending that those in Washington do not understand the farm problem, and suggesting that farmers should do more marketing through their own cooperative organizations. p. A4006
- Rep. Simpson inserted the findings of a newspaper survey indicating the extent of losses of farmers during 1955 in a County in Ill. p. A4024

24. LABOR UNIONS. Sen. Humphrey inserted a labor union publication article, "Linking Workers and Farmers", urging greater cooperation between farmers and industrial labor. p. A4006
25. INSECTS. Speeches in the House by Reps. Rogers and Fascell on the possible devastation that may be caused by the Mediterranean fruitfly recently discovered in Fla., and urging supplemental appropriations to combat the insect. pp. A4012, A4018
26. DAIRYING. Rep. Marshall inserted and commented on a magazine article stating that "it appears that stable and improved dairy farm incomes depend on greater production efficiency, merchandising effort and competitive prices, and a minimum of price-depressing accumulation in Government stocks". p. A4013
27. FARM LABOR. Rep. Beamer inserted a labor union letter supporting H. R. 9836, to provide for the regulation of interstate transportation of migrant farm workers. p. A4020
Rep. Fulton inserted an article from a labor union magazine on what effects the tendency toward specialization has had on the American farmer. p. A4021
28. ELECTRIFICATION. Extension of remarks of Rep. Davidson in support of S. 1823, to authorize the construction of certain works of improvement in the Niagara River for power and other purposes, and urging his colleagues to support the bill. p. A4027
Rep. Martin inserted a radio broadcast discussion between himself and the Administrator of REA reviewing the accomplishments of REA, and opposing the recommendations of the Hoover Commission on REA. p. A4030
Rep. McCarthy inserted a magazine article by Clyde T. Ellis on the accomplishments of REA, and criticizing the Administration's hydro development program. p. A4036
29. MEAT INSPECTION. Rep. Dodd inserted the statement of the Governor of Conn. commemorating the 50th anniversary of the Federal food and drug laws, and stating that the first agricultural experimental station was established 82 years ago in the State. p. A4031
30. PERSONNEL. Extension of remarks by Rep. Saylor commending the progress made in the rehabilitation of certain handicapped persons, but urged that further effort be made to expand this program. p. A4033
31. FOREIGN TRADE. Extension of remarks by Rep. Vanik urging that export controls be tightened to limit the export of scrap steel. p. A4035
32. WATERSHEDS. Rep. Hope inserted a letter from M. Triggs, Farm Bureau, criticizing the Army's opposition to certain watershed projects submitted by USDA under Public Law 566. p. A4039

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COMMITTEE HEARING ANNOUNCEMENTS:

- May 17: Increased authorization for FAO, H. Foreign Affairs (Roberts testified).
- May 18: Agricultural appropriation bill, full S. Appropriations (exec).
Road bill, S. Finance.
Trading in potato and onion futures, H. Agriculture.
Transportation standards for migrant farm labor, H. Commerce.
Mutual security bill, H. Foreign Affairs (exec).

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CONSIDERATION OF H. R. 10285

MAY 17, 1956.—Referred to the House Calendar and ordered to be printed

Mr. TRIMBLE, from the Committee on Rules, submitted the following

R E P O R T

[To accompany H. Res. 508]

The Committee on Rules, having had under consideration House Resolution 508, reports the same to the House with the recommendation that the resolution do pass.



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House Calendar No. 226

84TH CONGRESS
2D SESSION

H. RES. 508

[Report No. 2175]

IN THE HOUSE OF REPRESENTATIVES

MAY 17, 1956

Mr. TRIMBLE, from the Committee on Rules, reported the following resolution;
which was referred to the House Calendar and ordered to be printed

RESOLUTION

1 *Resolved*, That upon the adoption of this resolution it
2 shall be in order to move that the House resolve itself into
3 the Committee of the Whole House on the State of the Union
4 for the consideration of the bill (H. R. 10285) to merge
5 production credit corporations in Federal intermediate credit
6 banks; to provide for retirement of Government capital in
7 Federal intermediate credit banks; to provide for supervision
8 of production credit associations; and for other purposes.
9 After general debate, which shall be confined to the bill, and
10 shall continue not to exceed two hours, to be equally divided
11 and controlled by the chairman and ranking minority mem-
12 bers of the Committee on Agriculture, the bill shall be read

1 for amendment under the five-minute rule. At the conclusion
2 of the consideration of the bill for amendment, the Com-
3 mittee shall rise and report the bill to the House with such
4 amendments as may have been adopted, and the previous
5 question shall be considered as ordered on the bill and
6 amendments thereto to final passage without intervening
7 motion except one motion to recommit.

House Calendar No. 226

84TH CONGRESS
2d Session

H. RES. 508

[Report No. 2175]

RESOLUTION

Providing for the consideration of H. R. 10285,
a bill to merge production credit corpora-
tions in Federal intermediate credit banks;
to provide for retirement of Government
capital in Federal intermediate credit banks;
to provide for supervision of production
credit associations; and for other purposes.

By Mr. THIMBLE

May 17, 1956

Referred to the House Calendar and ordered to be
printed

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 1, 1956
For actions of May 31, 1956
84th-2nd, No. 90

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HIGHLIGHTS: House passed bill to extend Defense Production Act. House received conference report on Interior appropriation bill. House passed farm credit bill. Senate passed Commerce appropriation bill. Rep. Adair inserted Assistant Secretary Butz' Minneapolis speech.

SENATE

1. APPROPRIATIONS. Passed with amendments H. R. 10899, the Department of Commerce and related agencies appropriation bill for 1957 (pp. 8397, 8407, 8412). (For items relating to this Department see Digest 72.) Agreed to an amendment by Sen. Holland to allocate \$650,000 for a national intercensal housing survey, including city, town, and rural areas (p. 8408). Conferees were appointed (p. 8422).
Agreed to a unanimous consent request that the Appropriations Committee be permitted to file reports during the week-end adjournment. p. 8422
2. WATER RIGHTS. The Interior and Insular Affairs subcommittee ordered reported with amendments to the full committee S. 863, to govern the control, appropriation, use, and distribution of water. It was announced that the full committee will consider this bill on June 12. p. D551
3. PERSONNEL. The Judiciary Committee ordered reported S. 374, to provide for the extension and suspension in cases of statutes of limitation on false swearing by Government employees with respect to subversive activities and connections. p. D551
The Post Office and Civil Service Committee ordered reported without amendment S. 3681, to modify certain restrictions with respect to holding more than one office in the Federal Government. p. D552

4. ELECTRIFICATION. Received from the Federal Power Commission copies of two of its publications, "Statistics of Electric Utilities in the U. S., 1954, Privately Owned," and "Typical Electric Bills, Cities of 50,000 Population and More, Jan. 1, 1956." p. 8370
Sens. Neuberger and Goldwater discussed the pros and cons of constructing the Hells Canyon dam with public or private funds. p. 8376
 5. VETERANS' BENEFITS. Sen. Langer inserted a magazine article criticizing the Bradley Commission report on veterans' benefits. p. 8374
 6. DAIRYING. Sen. Thye discussed the promotion efforts of the dairy producers to increase the consumption of dairy products. p. 8376
 7. FOOD AND DRUG; MEAT INSPECTION. Sen. Scott inserted a statement issued by the Gov. of N. C. commemorating the 50th anniversary of the Food and Drug and Meat Inspection Acts. p. 8377
 8. POSTAL RATES. Sen. Scott inserted a Progressive Farmer editorial, "How Low Postal Rates Help Businessmen and Farmers." p. 8378
 9. LEGISLATIVE PROGRAM. Acting Majority Leader Smathers announced that the following bills may be taken up Mon.: H.R. 9822, to establish a fish hatchery in the Pisgah National Forest, N.C.; and H.R. 3255, to amend the Classification Act to preserve the rates of compensation of certain officers and employees. p. 8422
 10. ADJOURNED until Mon., June 4. p. 8425
- HOUSE
11. APPROPRIATIONS. Received the conference report on H. R. 9390, the Interior Department and related agencies appropriation bill for 1957 (H. Rept. 2250) (pp. 8426, 8456). See attachment for actions on Forest Service items.
 12. DEFENSE PRODUCTION. Passed with amendments H. R. 9852, to extend the provisions of the Defense Production Act of 1950, as amended, for two years (June 30, 1958), (p. 8428). The amendments agreed to, deleted a provision requiring members of the executive reserve to disclose periodically their holdings and provided for a study and recommendations by the Commerce Department on the nickel supply (p. 8432).
 13. FARM CREDIT. Passed, 246 to 4, with amendments H. R. 10285, to merge production credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations (p. 8434). The amendments agreed to, provided for a technical change in the printing of the bill and that no surplus of a bank, required by the Farm Credit Act of 1956, shall be distributed as patronage refunds or as dividends (p. 8444).
 14. TAXATION. The conferees on H. R. 6143, to repeal the transportation tax on poultry and the tax on livestock sold on account of drought, received permission to file a conference report by Fri. midnight. p. 8447

available supply of market-price nickel has become less and less as the military "take" has increased. To meet this situation the Office of Defense Mobilization has made available to industry substantial quantities of premium-price nickel, starting late in 1955, by authorizing the producers to make diversions of such nickel scheduled for stockpile delivery under long-term Government contracts.

The major consuming industries for nickel include stainless steels, low alloy steels, nonferrous uses, high-temperature and electrical-resistance alloys, and electroplating.

Because of the hardship problems which the nickel shortage has created throughout the civilian nickel industries, it is understood that hundreds of letters have been received by the Business and Defense Services Administration in the Department of Commerce expressing concern over the apparent cutbacks in their normal nickel deliveries and the financial losses this has entailed. Many of you have received similar letters, particularly from the nickel plating industry, which appears to have suffered severely in view of the expanded demands during the period of short supply.

A review of the correspondence in the files of the Department of Commerce by the staff of the Joint Committee on Defense Production indicates that the electroplaters feel that they are being unduly penalized while other businesses not dependent on nickel have been in a position to expand production.

Unfortunately, the majority of the electroplating demands are primarily for nondefense uses, and, therefore, the platers have been forced to turn to premium price nickel as the defense needs have required a greater proportion of the market price nickel. There are, however, two classes of premium price nickel: First, that which is being diverted to industry by the Government which ranges in price at around \$1.35 per pound for nickel anodes; and, second, the so-called gray market nickel which is reported to range in price as high as \$3.50 per pound. This gray market nickel, according to the Department of Commerce, consists primarily of secondary nickel produced from nickel scrap and imports from French, Japanese and West German sources.

The letters from the electroplating industry requesting Government aid in alleviating the shortage problem fall into five general groups, as follows:

First. Firms claiming severe cutbacks from past delivery schedules—market price nickel;

Second. Firms claiming that total allocations, including Government diverted premium price nickel, are less than previous periods;

Third. Firms requiring increased quantities of nickel to meet increased consumer demands;

Fourth. Firms requiring additional nickel to operate expanded facilities; and

Fifth. New firms entering the plating business for the first time.

The following excerpts are from correspondence picked at random by the

staff of the Joint Committee on Defense Production from the files of the Department of Commerce, and typical of the concern expressed by the plating industries regarding the problems created by the current shortage. In replying to letters, the Department of Commerce has recognized that it will be some months in the future before the foreseeable supply of nickel is expected to meet the demands of the defense, civilian, and stockpile requirements.

One plating company wrote the Department of Commerce in part on January 26, 1956, as follows:

We are appealing to this Department for help in the nickel situation.

Before allocations were removed, we were allotted 480 pounds of nickel per month. At that time, 1953, 480 pounds of nickel per month was sufficient, but since that time our business has increased until now our monthly requirements are around 1,100 pounds per month and our allotment has been cut to 30 percent of the original 480 pounds.

We used to supplement our usage by getting the small users amount (100 pounds) of nickel from two other sources but these have cut us off now. As a result of this, we have to go into the gray or black market whichever you wish to call it and pay \$3 per pound plus freight as against \$0.926 per pound freight prepaid when received from legitimate sources. The problem is getting serious because we cannot afford to continue in business buying upwards of a thousand pounds of nickel per month at \$3 per pound.

With a \$30,000 a month business and a 10 percent profit, \$3 nickel can put you out of business.

The silliest argument is that there is a shortage of nickel, therefore the black market. If there is a shortage, how come there is so much available if you want to pay through the nose.

What can you do for us?

The Department of Commerce replied on February 2, 1956, as follows:

This is in reply to your letter of January 26, regarding your nickel problems.

Because of the large number of inquiries received on the subject of your communication, this agency has prepared a mimeographed statement discussing the current nickel situation. A copy of this statement is enclosed which I believe covers the points raised in your letter with the exception of the basis entitlement which you refer to as being 480 pounds. Review of the National Production Authority records dated March 18, 1953, established your entitlement at that time to 242 pounds.

Our investigation of February 1 showed that you received * * * 450 pounds of nickel contained in anodes and chemicals for December, 1955; 350 pounds for January, 1956; and 284 pounds for February. The December allotment included 100 pounds of premium priced nickel scheduled for stockpile delivery during that month. Such nickel was not available in January but should be available in February which will increase your allotment for that period.

We wish to assure you that this Agency is continuing to make every effort to find means of relieving industry from the current nickel shortage. However, we regret that we cannot be of more direct assistance to you at this time.

The plating company wrote further on April 6, 1956, as follows:

I have your letter of February 2, 1956, in answer to ours of January 26, 1956, and since we are having more trouble than ever meet-

ing our requirements I have been reviewing some of your statements.

You state we received 450 pounds of nickel in December 1955. We did but the shipment December 9th should have been received in November 1955. The figures you use do not coincide with our receipts but that is beside the point. What I want to know is, are we entitled to the entire amount allotted in metal or is it the choice of the supplier to decide whether we get it in metal or salts. Further, you refer to the mimeographed copy on the nickel situation. With all due respect to the statements made, does it occur to those who set up the controls that the nickel used in nondecorative plating for corrosion resistance is just as important to the washing machine industry as it is when allotted to the makers of stainless steel which to a large extent is used for decorative purposes.

Further, if the nickel we receive is based on our usage back in 1951, how does the auto industry get the nickel for their increased production, also where does Oldsmobile and Ford get the nickel for their new installations which did not exist in the years when allocations were in effect?

We want 1,000 pounds of nickel per month and I don't see why we should be forced to purchase it through the black market any more so than the big industries. What is the explanation?

The Department of Commerce replied on April 25, 1956, as follows:

This will supplement our response of February 2 to your letter of January 26, in answering your further inquiry of April 6 on the subject of nickel.

The plating supplier in making his allotments of nickel makes his own determination of the ratio of metal to salts since he must ascertain the most economical balances in operating his business. Thus, if the supplier manufactures chemicals and all of his customers took only metal, it is conceivable that the supplier could thus be forced out of the chemical business. The Government's interest in the distribution of nickel for nondefense uses is that it be made on an equitable basis and for this purpose nickel contained in salts is considered together with that in the form of metal.

With respect to the nickel available to the automobile industry, we can assure you that the Government post-audits made of the plating suppliers' accounts, which incidentally are voluntarily permitted by the suppliers, have shown that the automobile companies have received only their equitable share of new nickel for plating determined on the same basis as for all other platers. The nickel available for nondefense uses which is equitably distributed consists of that offered at the normal market price and the premium price material scheduled for stockpile delivery which is diverted to industry. Aside from this nickel we do not have any authentic information on other sources.

It is rumored that at least some of the automobile companies receive appreciable quantities of anodes derived from domestic scrap and from nickel imported from Japan, France, and West Germany. However, you would have to consult with the respective automobile companies for specific details and information regarding their sources of additional nickel.

As you doubtless know, Government is without authority to direct or request a supplier to provide any particular quantity of nickel for nondefense uses. The supplier, as previously stated, does, of course, have a moral obligation to equitably distribute his nondefense share of nickel. Our periodic post audits of their accounts which are voluntarily permitted by the suppliers, show

that they are doing a very creditable job in maintaining an equitable pattern of distribution. Unfortunately the suppliers, because of short supply, do not have sufficient nickel to provide the general needs of all of their customers and any effort to take care of one who pleads hardship must be done at the expense of their other customers who also are having difficulty in meeting their needs. Government of course is seeking a solution to this problem of nickel shortage by obtaining diversions to industry of nickel scheduled for stockpile delivery. Due to the current rate of increase in defense orders the civilian economy has not been receiving the added benefit anticipated from these increased diversions.

Under the circumstances set forth, I regret that we are unable to assist you in securing any additional nickel required to take care of your needs and we can only suggest that you seek to obtain the defense rated orders to supplement your allotment of non-defense nickel.

The long-term solution to the problems which exist as a result of inadequate supplies of nickel to meet defense and civilian requirements is through the expansion of nickel supplies. Large sums of money have been expended under the Defense Production Act to increase nickel supplies. The Joint Committee on Defense Production has held meetings in recent weeks with the Director of the Office of Defense Mobilization and the Secretary of Commerce on this subject, and announcements have since been made of an expansion of nickel supplies. The Joint Committee on Defense Production previously considered the Nicar, Cuba, expansion, which is now underway.

(Mr. BROWN of Georgia asked and was given permission to revise and extend his remarks.)

The CHAIRMAN. The question is on the amendment offered by the gentleman from Massachusetts [Mr. MCCORMACK].

The amendment was agreed to.

The CHAIRMAN. Under the rule, the Committee rises.

Accordingly the Committee rose; and the Speaker pro tempore having resumed the chair, Mr. PRESTON, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H. R. 9852) to extend the Defense Production Act of 1950, as amended, and for other purposes, pursuant to House Resolution 505, he reported the bill back to the House with sundry amendments adopted by the Committee of the Whole.

The SPEAKER pro tempore. Under the rule, the previous question is ordered.

Is a separate vote demanded on any amendment? If not the Chair will put them en bloc.

The amendments were agreed to.

The SPEAKER pro tempore. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER pro tempore. The question is on the passage of the bill.

The bill was passed.

A motion to reconsider was laid on the table.

GENERAL LEAVE TO EXTEND

Mr. SPENCE. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks on the bill just passed.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Kentucky?

There was no objection.

COMMITTEE ON ARMED SERVICES

Mr. PRICE. Mr. Speaker, I ask unanimous consent that Subcommittee No. 1 of the Committee on Armed Services have permission to sit during general debate this afternoon.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Illinois?

There was no objection.

COMMITTEE ON THE JUDICIARY

Mr. BOGGS. Mr. Speaker, I ask unanimous consent that the Walter subcommittee of the Committee on the Judiciary have permission to sit during general debate today.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Louisiana?

There was no objection.

FARM CREDIT ACT OF 1956

Mr. TRIMBLE. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 508 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes. After general debate, which shall be confined to the bill, and shall continue not to exceed 2 hours, to be equally divided and controlled by the chairman and ranking minority members of the Committee on Agriculture, the bill shall be read for amendment under the 5-minute rule. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

Mr. TRIMBLE. Mr. Speaker, I yield 30 minutes to the gentleman from Oregon [Mr. ELLSWORTH], and at this time I yield myself such time as I may consume.

Mr. Speaker, this resolution makes in order H. R. 10285, a bill out of the Committee on Agriculture, to consolidate the lending agencies. It is a third step in a program initiated by the committee. So far as I know, there is no opposition

to the rule. I therefore reserve the balance of my time.

Mr. ELLSWORTH. Mr. Speaker, as the gentleman from Arkansas has explained to the House, this rule, which calls for 2 hours of general debate, would make in order the consideration of the bill (H. R. 10285) dealing with production credit corporations, Federal intermediate credit banks, and production credit associations.

There is no objection to the rule on this side and I have no requests for time.

Mr. TRIMBLE. Mr. Speaker, I yield 5 minutes to the gentleman from Illinois [Mr. YATES].

Mr. YATES. Mr. Speaker, I have read the bill and the report which accompanies it. I believe that on the whole, the committee has done a creditable job with a most complicated subject and I hesitate to place my judgment in opposition to the committee's decision. Nevertheless, I am disturbed by certain aspects of the bill and I have asked for this time in order to ask some questions. May I ask the chairman of the committee to inform the House of the surplus funds which are now owned by Federal agencies; are they owned by the production credit corporations or by the intermediate credit banks?

Mr. POAGE. There are some surpluses owned by the intermediate credit banks and some by the production credit corporations.

Mr. YATES. Will the gentleman tell the House the amount of surplus funds owned by the intermediate credit banks and the amount owned by the production credit corporations?

Mr. POAGE. My recollection is that \$49 million is for the intermediate credit banks and about \$12 million for the production credit corporations. I may have that reversed.

Mr. YATES. So that \$61 million in surplus funds which are now the property of the United States Government will be used for the benefit of the merged corporation; is that correct?

Mr. POAGE. That is approximately correct, yes.

Mr. YATES. Under the proposal set forth in the bill, class A stock will be issued to the Governor of the Farm Credit Administration. Class B stock will be issued to production credit associations. The surplus funds now belonging to the Government would be made available to the new corporation and production credit associations will be allowed to share in the surplus, will they not?

Mr. POAGE. Only in the case of liquidation could there be any question about the ownership of those surpluses, because they go into the capital structure and do not come out except in case of liquidation.

Mr. YATES. Cannot dividends be paid out of surplus?

Mr. POAGE. No.

Mr. YATES. Only out of earnings?

Mr. POAGE. That is right.

Mr. YATES. I saw no such provision in the bill. May I next ask the gentleman, in the event of liquidation do not the financial institutions as well as the cooperatives share in the surpluses?

Mr. POAGE. That is right.

Mr. YATES. Why should funds which belong to the Federal Government be handed over to private financial institutions for their private use and profit?

Mr. POAGE. For this reason: There are at present 94 of what they call the other financial institutions. Those are privately owned institutions that are re-discounting with the intermediate credit bank. Over a period of years there have been something over 1,200 such institutions.

Remember that the first 10 years or more of the life of this institution there were no production credit associations, and they did business only with these private institutions because there was nobody else to do business with. These institutions, the 94 that are still in business, have of course over the years built up a part of these surpluses. The bill provides that in case of liquidation, and only in case of liquidation, the surpluses, the then existing capital, should be divided in proportion to the business the institutions have done with the bank, and that would include the business that these 94 institutions have done even prior to this time.

Mr. YATES. The fact remains that \$61 million in surplus funds which belong to the taxpayers are being made available for the use of private financial institutions. It is possible, too, that private financial institutions may be able to withdraw such funds under certain conditions. Certainly they can do so in event of dissolution or liquidation. Would it not be better for these surplus funds to be transferred now to the Treasury of the United States for the benefit of the taxpayers or earmarked for payment at some later time? Why should not the new corporation develop its own surplus?

Mr. POAGE. We do not think so because these surpluses were built up by the businesses and by these institutions.

Mr. YATES. The surplus funds represent payments made to the Government for the use of its money or credit. The gentleman's argument would place the Federal lending processes in the same category as Christmas savings account. Under this proposal, interest paid for the use of Government funds or credit would be deposited with Government lending institutions only until Christmas or another such holiday and then be repaid to those who use the money or credit. Are Government lending institutions to be in a separate class than private lenders in not being entitled to a return? Apparently this is the purport of the gentleman's contention. Certainly the surpluses belong to the Government.

Mr. POAGE. The banks belong to the Government. The Government is going to get every dollar of its stock back. We are going to repay to the Government every dollar that the Government put into the business. The Government did not build these surpluses. These institutions built the surpluses and the people who did business with them are the people who built the surpluses.

Mr. YATES. Who owns the surplus now?

Mr. POAGE. The United States has title to them, of course. This is exactly what we had in the case of the land banks. It is just exactly what we had with the banks for cooperatives and whether, rightly or wrongly, this House has embarked on a policy of making these surpluses pass with the stock, when the Government is repaid the money that the Government put into them. Now the Government has been repaid all the money that it put into the land banks and all of the surpluses went to the owners of the land bank.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. YATES. Mr. Chairman, may I have 1 more minute?

Mr. TRIMBLE. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. YATES. It seems to me that the gentleman's arguments are quite unsound. Can it be argued that surpluses accumulated by private banking institutions belong to the depositors and borrowers because the banks did business with them? Of course, not. Under the same reasoning, would not the gentleman say that the Home Owners Loan Corporation, which was liquidated with a profit of over \$14 million to the Government, should return this money to the homeowners? Would the gentleman say, under the same line of reasoning, that the small firms which pay interest to the Small Business Administration upon loans made to them should also share in accumulations derived from interest paid that they own such funds? Should the Government lending agencies loan money directly and without interest? If interest is paid, are the borrowers entitled to a return of such interest later? Apparently that is what the gentleman is arguing for.

These funds are properly the property of the Treasury of the United States. They should not be used for the benefit of private financial institutions or given to them without arrangements being made for their repayment.

Mr. POAGE. Of course, they are not being paid back. They are actually being kept.

Mr. YATES. They are being used for their benefit, are they not? In the event of liquidation, the funds will go to these institutions.

Mr. POAGE. And the Government is getting back every dollar that it has put in.

The SPEAKER pro tempore. The time of the gentleman has expired.

(Mr. YATES asked and was given permission to revise and extend his remarks.)

Mr. TRIMBLE. Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER pro tempore. The question is on the resolution.

The resolution was agreed to.

Mr. COOLEY. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in

Federal intermediate credit banks; to provide for supervision of production credit associations, and for other purposes.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from North Carolina.

The motion was agreed to.

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill H. R. 10285, with Mr. MULTER in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

The CHAIRMAN. Under the rule, the gentleman from North Carolina [Mr. COOLEY] is recognized for 1 hour, and the gentleman from Kansas [Mr. HOPE] will be recognized for 1 hour.

Mr. COOLEY. Mr. Chairman, in view of the fact that the gentleman from Kansas [Mr. HOPE] is absent on official business, the gentleman from Minnesota [Mr. AUGUST H. ANDRESEN] will control the time on his side.

The CHAIRMAN. The Chair recognizes the gentleman from North Carolina [Mr. COOLEY].

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman permit me to yield 1 minute at this time?

Mr. COOLEY. Yes, it is perfectly agreeable to me.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, I yield 1 minute to the gentleman from New York.

Mr. KEATING. Mr. Chairman, I rise at this time in order to inquire of the gentleman from Louisiana if he can inform the House regarding the program for next week.

Mr. BOGGS. For the benefit of the Members, the program for next week is as follows:

On Monday, there is no legislative business due to the fact that there is a primary in Iowa. On Tuesday, the Consent Calendar and the Private Calendar will be called and there will be one bill taken up under suspension of the rules. That bill is H. R. 10766 to compensate the Vatican for damages done during World War II.

There will be no vote on that day because of primaries in several States—California, Montana, New York, South Dakota.

Beginning on Wednesday, general debate on the Mutual Security Act of 1956. That will probably continue through Thursday and Friday. If we have finished it, H. R. 9952, the Armed Forces Reserves readjustment pay, will be considered.

Conference reports may be considered at any time.

Mr. KEATING. I thank the gentleman.

Mr. COOLEY. Mr. Chairman, I yield 10 minutes to the gentleman from Texas [Mr. POAGE].

Mr. POAGE. Mr. Chairman, the bill as we bring it to you today is but the third and last of a series of 3 bills, all taken together, which will ultimately transfer the Government ownership of all of the Farm Credit institutions into the hands of those who are borrowing

from those institutions. The Farm Credit Administration is composed of the land banks, of the Bank for Cooperatives, and the production credit agencies, which in turn are composed of the intermediate credit banks and production credit corporations. The production credit portion of the Farm Credit relates to those agencies that provide short-term credit for the making of crops. Of course, the land banks involve real estate loans on land; the banks for cooperatives involve those banks which finance such institutions as dairy cooperatives, livestock cooperatives, and some fruit and vegetable cooperatives.

It has long been the hope that all of those institutions might become farmer owned. It is the feeling of the Committee on Agriculture that it is well that they should become farmer owned. The land banks are now all farmer owned. There is no Government capital in your 12 land banks. The banks for cooperatives are on their way to becoming farmer owned as the result of legislation passed by this Congress last year. They are paying out the Government stock.

There were certain complications and certain unresolved questions last year which made it impracticable for the committee at that time to report out legislation that would accomplish farmer ownership of the production credit corporations and the intermediate credit banks. This year those questions have been resolved. The Governor of the Farm Credit Administration and his assistants have carried on a series of meetings all over the United States, in every one of the 12 credit regions, in which the local people have been invited to come in and express their views on this matter of transferring the stock. Over the past year I think those meetings have been very successful, and there has been a very fine understanding on the part of people in all parts of the United States, and certainly a great portion of the differences of opinion that existed last year have been eliminated.

I do not mean that everybody everywhere in the United States is entirely satisfied with this legislation. Obviously, when you reach a problem of this magnitude, some people will find fault with some of the details. There are many details that need working out. Most of them were worked out in these meetings of which I spoke. It is true the Bureau of the Budget took exactly the same position that the gentleman from Illinois [Mr. Yares] took, and felt that we should provide that in case of liquidation the surplus funds should go to the public treasury. Our committee felt that this would be an unfair thing particularly at this late date. Whether the question was decided properly or not in the case of the land banks—whether it was properly decided in the case of the banks for cooperatives—it is now a closed matter. We just do not feel it would be fair to say to those people, the borrowers from the intermediate credit bank, that we are going to apply to you a more harsh rule than has been applied to those who have paid out their credit institutions in the past.

Whether or not this Congress, this very House, was correct in voting this very principle last year for cooperatives is a closed issue. Last year we said to the people who were borrowing from the banks for cooperatives that they should simply pay back the money they borrowed from the Government. Why should we now say that "you who have been depending on this source of credit for your day-to-day operations should now be required to pay back not only what you borrowed from the Government but pay the Government all of the earnings that have been made on your money during the last few years"? We feel that that would be an unfair situation.

Frankly, I feel that in the very beginning we were right when we said to land banks that "you pay back what you get from the Government and the Government will be glad if you do that."

We set this up as a program whereby the farmers of America could have an available credit system, and the quicker we get back the Government money the quicker we can make the money available to others. It has been paid back by the land banks and it will be paid back by the intermediate credit banks if you allow this bill to be passed as written.

This bill consolidates the existing intermediate credit banks and the production credit corporations; it sets up 1 facility instead of 2, because we now have 2 institutions in each of the farm credit areas rather than simply 1 as we do for the land banks; we have an intermediate credit bank which was established not to deal with the production credit associations but to deal with private institutions.

Why? Because we had only private institutions rediscounting here for some 10 or 12 years after the creation of the production credit system. It was not until about 1933 that we created the farmer-owned production credit associations in the various localities and created a Government supervisory institution known as the Production Credit Corporation, not a banking institution, but a supervisory institution.

We have under this bill consolidated the intermediate credit banks and the production credit corporations into 1 new institution, believing that by so doing we will be able to reduce the cost of operation, that we will have a more efficient operation with only 1 rather than with 2 institutions in each of the districts.

I think that is a sound proposition; I think it is going to save us some money. There are those who have raised objections to this bill on the ground that when we consolidate the two institutions we will not need as many people as we did formerly, and some would be thrown out of employment. To me that is a rather poor objection. We want to save all we can. We should not employ more people than we need. If we are going to effect economies, and we believe we should effect economies, then some of these people who are unnecessary under the new and more efficient opera-

tion certainly do not need to stay on the bank's payroll and they will have plenty of time to make a readjustment and get other employment. There is no better time for them to make such an adjustment than now when we have an opportunity for them to get employment elsewhere. The bill provides that it will not become effective until the first of January. These people will have 6 months within which to seek other employment and have an opportunity to readjust their living. There will not be a great many of them, but whatever the number they can make the readjustment. I think it is estimated it will save \$40,000 to \$60,000 a year to the banks.

These banks are going to be owned by the farmers of America, not by the taxpayers of America. It does not seem to me that I as a representative of the taxpayers ought to be determining who the farmers, who are going to own these banks, are going to have to employ. We are saying now: "You will employ whom you please." I think that is the only fair thing to say. Control of the banks should go with the ownership into the hands of new owners. The board of directors that is charged with the responsibility of running these institutions should have the authority to employ those they feel will most efficiently operate the institutions.

Then there has been the question of the name of the new consolidated institution. Very frankly, more than a year ago I suggested that we use the name "Production Credit Bank" because I think that the name "Production Credit" carries a little more meaning than "intermediate credit." There are a good many of the local associations now that say we ought to use that name. I would like to see that name used. But we came to the board of directors and the governor of the Farm Credit Administration and they pointed out if we changed the name of this institution we might have difficulty getting money.

The CHAIRMAN. The time of the gentleman from Texas has expired.

Mr. COOLEY. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. POAGE. Mr. Chairman, you will bear in mind that these institutions get the money that they lend not from the Federal Treasury but from the sale of debentures which are the obligations of the intermediate credit banks. There is an established market for the debentures of the intermediate credit banks. There is none for the debentures of the production credit banks. I have never had occasion to deal with that kind of big financing, but those who know have suggested that the bond market and the debenture market are extremely sensitive to any kind of change and a change of name might result in an increase in the interest rate, a half or a quarter of a percent. I do not believe any farmers were so anxious for a particular name that they would want to pay the extra interest rate. I do not know of any farmer who could afford to do that simply for the benefit of a name he liked better. So the committee did not change the name even though many of

us felt we would like to change it. I hope we may look forward to the day when the farmers have paid out these banks and have made them entirely farmer owned. At that time we might well consider the advisability of changing the name because then we will in all probability be in a much stronger position to make this move.

Mr. ROGERS of Colorado. Mr. Chairman, will the gentleman yield?

Mr. POAGE. I yield to the gentleman from Colorado.

Mr. ROGERS of Colorado. What happens to the Federal Land Banks?

Mr. POAGE. Not a thing in the world under this bill because this bill does not touch the Federal Land Banks. The Federal Land Banks have already been taken care of and are already entirely farmer owned.

Mr. ROGERS of Colorado. The gentleman spoke of the merger.

Mr. POAGE. The merger is between the intermediate credit banks and the production credit corporations.

Mr. ROGERS of Colorado. That will hereafter carry on the functions of the two?

Mr. POAGE. The new corporation will carry on. That is right.

Mr. ROGERS of Colorado. They have operated separately or independently, you may say, of each other?

Mr. POAGE. Yes. In the past the intermediate credit banks have been the banks of discount, the production credit corporations have been the supervisory agency to supervise the production credit associations which are the local institutions that make the direct loans. The intermediate credit banks have not been banks of original lending. They have discounted the paper that originated at the level of the production credit associations.

Mr. ROGERS of Colorado. I thank the gentleman because I was not clear as to what happened to the Federal Land Banks.

Mr. POAGE. Nothing. This bill does not touch the Federal Land Banks and does not touch the Bank for Cooperatives.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, I yield 10 minutes to the gentleman from Maine [Mr. McINTIRE].

(Mr. McINTIRE asked and was given permission to revise and extend his remarks.)

Mr. McINTIRE. Mr. Chairman, my colleague, the gentleman from Texas [Mr. POAGE], has already given an outline of the purposes of this legislation. I want to take just a moment to say that in my short experience on the Committee on Agriculture this legislation has been given as thorough analysis on the part of the committee as most any legislation we have had before us.

Mr. Chairman, somewhat this same objective was incorporated in legislation which was before the committee a year ago, which legislation resulted in the Farm Credit Act of 1955. However, in portions of the bill before the committee at that time dealing with the Federal Intermediate Credit Bank and the Production Credit Corporation there were certain areas which the committee felt

needed further study and further consideration on the part of the folks out in the country and others deeply interested in this system. Consequently, the provisions of the legislation before us a year ago dealing with this area were stricken from the bill, and the Farm Credit Administration officials were asked to review this matter in further detail and study, which they have done. The legislation before us today is the result of that very careful review and study not only on the part of those who, you might say, were in higher levels of the system, but these propositions, these thoughts and ideas which are developed in this legislation today, were taken out into the various communities which these production credit associations serve. Representatives from the production credit associations, delegates from the districts within the farm credit districts were all brought together, not once but at least twice, to thoroughly consider every provision of this proposition.

Mr. Chairman, this bill comes before you today not with the unanimous approval of all of the participating production credit associations but certainly, in my humble opinion, it is with the substantial approval of the various groups. True, as the gentleman from Texas [Mr. POAGE], has stated, some individual associations would prefer decisions otherwise than the provisions in this bill, but I think that the objectives are attained, and the basic objective is that in this step we are completing the job of providing the legislative framework by which all units of the farm credit system can become farmer owned and by which the capital subscribed by the Federal Government into this system can be retired to the Treasury.

I want to commend the chairman of the subcommittee, the gentleman from Texas [Mr. POAGE], and members of the subcommittee in the thorough consideration of this legislation. We have spent many hours considering the details. We have not proceeded hurriedly with this bill. We heard all of those who were interested in being heard. We considered their propositions, and have taken their recommendations and incorporated them, insofar as the committee felt they could be incorporated, and keep the legislative objective intact.

So this bill comes before the House today, having had very careful preparation, very careful consideration in the country by the farm people, very careful consideration by the Farm Credit Board, and very careful consideration by the subcommittee and the full committee.

As has been stated, its objective is to merge the Production Credit Corporation and the Federal Intermediate Credit Bank, and it does this on a progressive basis. I should say that it does it immediately by the suspension or the closing out technically of the separate corporations and bringing them together in the new corporation which will be designated the Federal Intermediate Credit Bank.

It provides for the liquidation of the Government capital by gradual means, initial payment being made by the Production Credit Associations to start off

this step toward complete ownership, and then the remaining liquidation of the Government's interest will be on the basis of the system's ability to retire this capital without losing the capability of the system to serve the farmers for which it is established.

I do not think it is necessary that I go into any further detail. I believe this legislation has been very soundly considered. It has been very carefully analyzed and comes before this committee and this House after due consideration on the part of the farm people, the Farm Credit Board, and your legislative committee dealing with this problem.

Mr. AUGUST H. ANDRESEN. Mr. Chairman, will the gentleman yield?

Mr. McINTIRE. I am happy to yield to the gentleman from Minnesota.

Mr. AUGUST H. ANDRESEN. The gentleman was on the subcommittee considering this proposed legislation. I just want to make it clear again, as the gentleman has so well stated, that there was no objection to the bill. As a matter of fact, the proposals made in this bill were agreed to after a long period of study by the Farm Credit Administration.

Mr. McINTIRE. That is right.

Mr. AUGUST H. ANDRESEN. There was no objection filed in the committee by any member of the committee to the provisions of this bill.

Mr. McINTIRE. That is right.

Mr. AUGUST H. ANDRESEN. So we can say that the bill was agreed to unanimously by the committee and comes here with a unanimous report of the committee.

Mr. McINTIRE. That is certainly my understanding.

Mr. KEATING. Mr. Chairman, will the gentleman yield?

Mr. McINTIRE. I am glad to yield to the gentleman from New York.

Mr. KEATING. Is it not a fact that the Bureau of the Budget did file with the committee a letter making recommendations for changes in the bill, or some other bill? I want to ask the gentleman whether that is a fact and whether the committee did consider the views of the Bureau of the Budget in their deliberations.

Mr. McINTIRE. Let me say in reply to the gentleman from New York that I am not familiar with any communication, although there may have been such, between the Bureau of the Budget and the committee on this point. I am familiar with the fact that the Bureau of the Budget had some points in which they were interested also. I believe those were presented in an executive communication sent to the Speaker of the House. Two bills were sent up through this executive communication. Both bills were introduced. One bill is the one we have before us today, H. R. 10285, introduced by the gentleman from North Carolina [Mr. COOLEY], and a bill which I introduced, H. R. 10392, which represent the position or the thoughts, you might say, of the Farm Credit Administration in regard to this proposed legislation. A bill, H. R. 10623, introduced by the gentleman from Pennsylvania [Mr. KING], carries the pro-

visions of the Bureau of the Budget relative to this legislation.

I may say to my colleague that the views of the Bureau of the Budget were considered by the committee and each item was discussed. They were discussed in hearings with representatives from the Farm Credit Administration in order that we have full comprehension of just what those provisions incorporated and the intention. It was the conclusion of the committee in reporting the bill which is before us today that in their opinion the provisions in this bill were more applicable to the objectives which we have in this legislation.

Mr. KEATING. I thank the gentleman for that frank statement and explanation. I think it is important, as I know the gentleman does, that the views of the Bureau of the Budget be considered in connection with any legislation, although the primary responsibility rests with us to legislate. I hope that when the bill goes to the other body an opportunity will be given there for further consideration of the views of the Bureau of the Budget.

Mr. McINTIRE. May I reemphasize that the views of the Bureau of the Budget were carefully and objectively considered by this committee in developing this legislation.

Mr. POAGE. Mr. Chairman, I yield 1 minute to the gentleman from Florida [Mr. MATTHEWS].

Mr. MATTHEWS. Mr. Chairman, I rise in support of H. R. 10285, a bill to merge production credit corporations and Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

The Federal Farm Credit Board in December 1954, pursuant to Public Law 202, 83d Congress, made recommendations relating primarily to the banks for cooperatives and production credit corporations. The recommendations of the Board, with the respect to the production credit corporations, were not enacted into law because there were many objections voiced at the hearings last year by the Committee on Agriculture that the matter needed further study.

I was one of those who thought that this matter required further study and had been requested by the Production Credit Association in the Eighth District of Florida to petition for further study of this matter on a grass roots level. I was especially anxious to see that the production credit associations were protected in any reorganization plan because I feel that these associations are what we might call the "grass roots" of the Farm Credit Administration. I was very much concerned last year, too, with the proposed changes at that time because I was fearful that these changes might cause a high interest rate to be charged to our farmers. I felt that the proposed changes in the Farm Credit System recommended last year, as they would apply to our production credit associations, would not give these associations their proper share of the control over credit policies.

I wish to congratulate the Federal Farm Credit Board for making a restudy of this matter, and for recommending to us legislation which is substantially that recommended in H. R. 10285. I believe this proposed legislation has an overwhelming grass roots approval on the part of our 498 production credit associations. In this connection, I would like to point out that I have been informed by the Florida Federation of Production Credit Associations, representing the 10 associations in Florida, that they approve this legislation. I have also had special letters of approval from the Gainesville Production Credit Association, with headquarters in Gainesville, Fla.; the Northeast Production Credit Association, with headquarters in Palatka, Fla.; the Florida Citrus Production Credit Association, with headquarters in Orlando, Fla.; and the North Florida Production Credit Association, with headquarters in Live Oak, Fla. I feel, therefore, that I can speak for the many hundreds of farmers in all of Florida when I say that they are in favor of this legislation.

This bill that we are now considering will help those engaged in agriculture, I think, obtain a sound dependable source of credit. The legislation will combine the Federal intermediate credit banks and the production credit corporations in order to increase the efficiency of operation and facilitates the retirement of Government capital. I believe that this legislation would encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis, with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system.

Finally, this legislation will continue to provide other financing institutions making loans to farmers and ranches with the right to borrow from and rediscount with the combined entity on a basis comparable with the production credit associations.

One of the great needs of the American farmer today is as we all know, dependable credit. Anything that we can do to help him obtain that credit on a good business basis is, I think, an action that should be taken immediately. I strongly support the passage of H. R. 10285, and I hope the House will give it enthusiastic approval.

(Mr. MATTHEWS asked and was given permission to revise and extend his remarks.)

Mr. AUGUST H. ANDRESEN. Mr. Chairman, I yield 5 minutes to the gentleman from Indiana [Mr. HARVEY].

(Mr. HARVEY asked and was given permission to revise and extend his remarks.)

Mr. HARVEY. Mr. Chairman, apropos of the comment just made by my colleague from Maine [Mr. McINTIRE] in reply to a question by the gentleman from New York [Mr. KEATING] concerning the views of the Bureau of the Budget, while I am not on this immediate subcommittee; it does seem to me that a matter of policy has already been

established in this instance. For that reason, if none other, I am inclined to think that the opposition as expressed by the Bureau of the Budget is more of a pro forma registered objection than any actual attempt to change the status of this particular legislation.

Mr. COOLEY. Mr. Chairman, will the gentleman yield?

Mr. HARVEY. I yield to the gentleman from North Carolina.

Mr. COOLEY. It is a fact, I understand, that the United States Department of Agriculture is supporting the measure. It has also been supported by the Federal Farm Credit Board. I am inclined to agree with the gentleman's remarks regarding the opposition of the Bureau of the Budget that it is more or less pro forma.

Mr. HARVEY. Yes, I think that is a correct statement. I was going to elaborate on that briefly. But, the earnings of the other two branches of the Farm Credit Administration were not treated as being necessarily returned to the Treasury. Certainly, if we are going to follow that policy, as we have followed it in the past in the instance of the two other branches of the Farm Credit Administration—whatever opinions any of us might have with regard to the policy—equity would certainly demand that we treat production credit in this instance on the same basis. I am very happy to see this final draft of the three part treatment of farm credit legislation come about. It has been, particularly to me since I have participated in the past in various branches of the farm credit activities as a borrower, very gratifying to see how successfully these branches have operated. It is gratifying to see the great contribution they have made to the well-being of agriculture throughout the Nation. It has been operated successfully, proving beyond question of doubt that farmers can operate their own cooperative credit organizations. The fact that the farmers are now returning the original capital to the Government, and are prepared to operate as an independent credit agency constitutes the attainment of a fine objective.

I would like to comment briefly on the fact that there was brought to my attention from some production credit agencies in Indiana a request for an amendment to be added to this bill. It was given consideration by the committee. It had to do with changing the method of selecting members for the various regional farm credit boards. By way of clarifying the record, I would direct my question to my colleague from Texas [Mr. POAGE] with whom I previously discussed this proposal.

Mr. POAGE. I presume the gentleman is referring to the amendment of our colleague, the gentleman from Kansas?

Mr. HARVEY. That is correct.

Mr. POAGE. That amendment is the same proposal that was first offered to the land bank bill and then to the co-op credit bill, and which has been turned down in the past. We do not feel it ought to go on this bill. We feel it is unsound all the way around because un-

der that amendment an employee of one of these institutions would be able to sit on the board of directors that determined what his duties might be and what his policies should be. In fact, he would be sitting there instructing himself how to operate. We did not think that was a sound provision. We felt that these institutions should be farmer managed as well as farmer owned.

Mr. HARVEY. In other words, it had to do with what we deemed to be a proper separation of powers as between policymaking and the administration of the credit organizations.

Mr. POAGE. That is right.

Mr. HARVEY. I thank the gentleman very kindly.

Mr. COOLEY. Mr. Chairman, I yield myself such time as I may require.

Mr. Chairman, I want to thank my colleague the gentleman from Texas [Mr. POAGE] for the splendid manner in which he has handled the pending measure through the subcommittee. This is a well-considered bill and should be enacted.

This bill is the culmination of several years of study and work on the part of the Committee on Agriculture, the farm organizations, officials of the Department of Agriculture, and of the Farm Credit Administration, and many other persons and groups interested in a sound and effective farm-credit program.

One of our major objectives has been to make it possible for farmers themselves to have the greatest possible opportunity for ownership and control of farm-credit agencies.

The Farm Credit Act of 1953 was the first big step in this direction. It established the Farm Credit Administration and the Farm Credit Board as agencies virtually independent of the Department of Agriculture. It established in specific terms the policy of Congress that farmers should have greater responsibility in the ownership, control, and operation of the credit system and that Government capital in the system should be retired as rapidly as possible.

In the Farm Credit Act of 1955, this policy was put into effect with respect to the banks for cooperatives. That act provides for the retirement of Government capital in those banks and for the assumption of ownership and greater control by those who use the banks—largely farmers themselves.

This bill completes the picture. It provides for the consolidation of the production credit corporations and the intermediate credit banks, for the retirement of Government capital from the merged institution, and for gradual assumption of ownership by the farmer-borrowers.

The production credit corporations were established under the Farm Credit Act of 1933 to organize, capitalize, and supervise the production credit associations in order to provide agriculture with a permanent and dependable source of short-term credit on a cooperative basis.

The function of the corporations to organize and capitalize the production credit associations has been largely achieved. Four hundred and forty out

of the 498 PCA's are now entirely member-owners.

The most important remaining function of the corporations is that of assisting in supervising the production credit associations. Supervision and training in credit and operating matters have been important factors in the growth and development of the local associations, both as to their financial strength and in extending sound credit service to agriculture. The production credit corporations prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations also assist in the training of employees, prescribe and approve loan interest rates, approve the compensation of personnel, and generally guide the associations in the conduct of their business and service to agriculture. We believe that important supervisory functions must be continued and the legislation makes adequate provision therefor.

The bill has the support of the Farm Credit Board, the Department of Agriculture, most of the farm organizations, and many others. Some of its features were objected to by the Bureau of the Budget, but the position of that agency has been carefully and thoroughly considered by the committee and rejected in favor of the existing provisions of the bill. It is a bill which I bring before the House with considerable pride and with the hope that it will be promptly enacted.

(Mr. COOLEY asked and was granted permission to revise and extend his remarks.)

Mr. AUGUST H. ANDRESEN. Mr. Chairman, I have no further requests for time.

Mr. COOLEY. Mr. Chairman, I yield 5 minutes to the gentleman from Illinois [Mr. YATES].

Mr. YATES. Mr. Chairman, I have the greatest respect and the highest esteem for the gentleman from North Carolina [Mr. COOLEY], and for the gentleman from Texas [Mr. POAGE], who have brought this bill to the floor. In my opinion, they know as much about agriculture and agricultural matters as any other Member of the House and I dislike very much to disagree with them on matters within their specialty. Nevertheless, I must do so in this case, because this bill deprives the taxpayers of this country of some \$61 million in surplus funds which have been accumulated as a result of financial dealings benefiting the production credit associations, the intermediate credit banks, and the farmers of this Nation. These are taxpayers' funds. They should be earmarked for the benefit of the taxpayers and paid to them now or later.

I recognize the desirability of the plan of merger and private ownership contained in this bill. I am aware, too, that the success of the proposal may well depend upon the ability of the merged banks to command large accumulations of funds or sources of credit and that these, in all probability, must come from the Government. The fact remains that

the \$61 million in surpluses that have been accumulated are taxpayers' funds. The plan of merger in the bill should either provide for payment of the funds at once to the Treasury of the United States in the event they are not required to carry out the merger, or should provide for their being earmarked for payment in the future, if they are presently needed. The bill fails to do this. It gives away the taxpayers' funds. It assumes that the taxpayers have no interest in this bill at all. In the words of the gentleman from Texas [Mr. POAGE] the bill presupposes that these surpluses were built up by and for the benefit of the production credit associations and by other financial institutions, one would think, without the help of the Government at all. The gentleman says these associations and institutions are entitled to the use of the funds during the life of the merged banks, and ultimately to receive them upon dissolution or liquidation. The fact is, Mr. Chairman, that these funds do not belong to the members of the production credit associations or to the other financial institutions. These are taxpayers' funds, accumulated through the use of taxpayers' money or taxpayers' credit.

Under this bill it is intended that two grades of capital stock shall be issued. The Government will receive class A stock. Members of the production credit associations will receive class B stock. Under the plan the class A stock owned by the Government will be redeemed in time and under certain conditions. When this occurs, the millions of dollars in surplus funds will inure to the holders of the class B stock.

The gentlemen of the committee have stated that this bill provides for the ownership by farmers of their credit facilities. How can they reconcile this assertion with the provision which appears on page 13 giving the right to other financial institutions to share in the assets of the bank upon liquidation or dissolution? It is true that the term "other financial institutions" may be farmer organizations. It is equally true that they may not be farmer controlled. They may be the normal private banking institutions making money by loaning money.

Furthermore, what happens if the newly merged banks are liquidated voluntarily? Remote as this possibility may be, it is nevertheless present. The purpose of this bill is to keep open channels of credit for farmers through private ownership of credit facilities. Yet there is nothing in this bill that would prevent voluntary liquidation and access thereby to the Government surplus funds. If there is a voluntary dissolution at some future time, the \$61 million received from the Federal Government would go to the stockholders and to other qualified financial institutions. The taxpayers would receive nothing.

In the colloquy I had with the gentleman from Texas [Mr. POAGE], I asked him whether or not the surplus could be used for the payment of dividends. He indicated to me that in his opinion the surpluses could not be used for this

purpose. He referred me to page 11, lines 6, and 7, reading:

No part of such surplus of any bank shall be distributed as patronage refunds.

I do not believe this provision restricts the payment of dividends from surplus funds. Dividend payments are not necessarily the same as patronage refunds. It is true that borrowers from this bank may also be stockholders. Insofar as they receive their proportionate share of any rebates that might come through the mutualization of the institution, they receive patronage refunds not dividends. As stockholders, however, they could only receive dividends, not patronage refunds. Dividends could very well be paid from surplus funds.

Moreover, on page 23 I notice that class C stock may be sold to investors. Investors are not necessarily borrowers from the bank. Dividends can be paid to investors who own class C stock. The prohibition against the use of the surplus for patronage refunds does not cover this situation.

In my view, the taxpayers of this country are entitled to the \$61 million in surplus funds that have been accumulated by the Federal intermediate credit banks and the production credit corporations. If the merged banks want to use these funds, they should agree to repay them in the future. But this bill treats these surplus funds as gifts, from the taxpayers to the new banks, rather than as loans. I cannot agree with this concept and I shall vote against the bill.

Mr. POAGE. Mr. Chairman, I yield 5 minutes to the gentleman from California [Mr. SISK].

Mr. SISK. Mr. Chairman, I take the time of the committee on this occasion to inquire about 2 or 3 provisions of this particular bill. I understood earlier in the discussion that there had been little or no opposition to the measure. I might say there has been quite a lot of interest in my district concerning this measure, that there was some rather vigorous opposition voiced by certain groups in the district and in the State of California. That opposition primarily came from livestock associations and range associations with reference to what they felt to be certain unfair provisions of the bill. Since that time I understand that the bill has been amended to cover that particular situation, and I would like to ask the gentleman from Texas to explain if he will the provision which I believe is discussed here in the report in section 103 on page 7, and whether or not he knows if it has allayed the opposition of certain range groups.

Mr. POAGE. I think it is fair to say that the amendment placed in the bill in the committee did at least materially reduce the opposition that has been suggested. I would not want to say that it has satisfied everyone, because obviously it did not; but it went a good deal further than some people thought we should go. The gentleman from Illinois has just expressed the contrary view that we should not have gone as far as we did. We did however provide that in case of liquidation, which is the only way in which these surpluses can pass out of

the capital structure of the institutions, because you cannot pass these surpluses out in the way of dividends without some authority under the law, and the authority as I see it just is not here.

It is true that there probably is not a direct prohibition against it, but these institutions have no authority except such as we give them, and we did not give them any authority to pass these surpluses on except in case of liquidation. In that event we make it clear as to how the surplus and all of the assets shall be divided.

We did provide that in the event of liquidation these other financial institutions—and they are the ones the gentleman speaks of—shall share in the division of these assets in proportion as the business they have done with the particular intermediate credit bank bears to the total amount of business that has been done over a period of years. It happens that the gentleman lives in a district that has the largest volume of business with the other financial institutions; I believe it runs about 23 percent in the Berkeley banks. It happens that the banks in my area run next, which is somewhere around 20 percent. Some of the banks in the United States are not doing 6 percent of their business with other financial institutions. As a result in those areas a very small amount would go to these other financial institutions. In the gentleman's area nearly one-quarter of the surplus would of course go to the other financial institutions in case of liquidation only.

I think the committee has done everything that could reasonably be asked in setting up that formula.

Mr. SISK. I thank the gentleman for that explanation because, as he has suggested, it was of considerable concern to certain people in my district. I have, of course, a great number of people out there who are thoroughly in favor of the bill. On the other hand, there were these groups which did feel some concern about its effect upon them and upon their people. I appreciate very much the explanation of the gentleman. It is my hope it will work in that way. Certainly, as I understand it, this would apply only in case of liquidation which is not actually probable, is that a correct statement?

Mr. POAGE. That is a correct statement.

Mr. SISK. I thank the gentleman.

(Mr. SISK asked and was given permission to revise and extend his remarks.)

The CHAIRMAN. If there are no further requests for time, the Clerk will read the bill for amendment.

Mr. POAGE. Mr. Chairman, I ask unanimous consent that the bill be considered as read and open to amendment at any point.

The CHAIRMAN. Is there objection to the request of the gentleman from Texas?

There was no objection.

The bill follows:

Be it enacted, etc., That this Act may be cited as the "Farm Credit Act of 1956."

Declaration of policy

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture

with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate farmer ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. Merger of production credit corporations in Federal intermediate credit banks—(a) Transfer of assets: The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration to be held by him on behalf of the United States, and the Governor shall cancel an equal par amount of stock of the corporation.

(b) Services to and supervision of production credit associations: In order to carry out the declared policy of this act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and by-laws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) Officers and employees: Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this act and the board of directors of the Federal intermediate credit bank shall, not later than 60 days prior to the effective date of this act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

"Capital stock

"SEC. 205. (a) Classes of stock; ownership; dividends; and retirement of stock: Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

"(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within 60 days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 percent of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such 5-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion

that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such 5-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of 5 years thereafter to an amount determined by applying to its average indebtedness to the bank during such 5-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owing stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at a face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) Lien on stock and participation certificates: Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: *Provided*, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"Application of earnings

"Sec. 206. (a) Annual application: At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 percent of any remaining earnings shall be used to create and maintain a re-

serve account equal to 25 percent of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 percent of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 percent of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

"(b) Patronage refunds: Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such funds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) Distribution of assets on liquidation or dissolution: In the case of liquidation or dissolution of any Federal intermediate credit bank, after the payment or retirement, as the case may be, first, of all liabilities; second,

of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any surplus established pursuant to subsection (a) of this section shall be paid to the holders of class A and class B stock pro rata, and any remaining assets shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "seven."

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

(e) Section 204 (b) of the Federal Farm Loan Act is hereby repealed.

(f) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit

banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended."

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this act referred to as the 'Governor,' is authorized and directed to organize and charter 12 banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and".

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$100,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus".

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"Investment by Governor in stock of production credit associations"

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this act and such stock shall be held by him on behalf of the United States. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor."

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank".

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and

make loans to farmers for general agricultural purposes and other requirements of the borrowers."; (2) by deleting the second sentence; (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank"; and (4) by changing the period at the end of next to the last sentence to a colon and adding the following: "*Provided*, That an association may, under rules and regulations issued by the Farm Credit Administration, make loans to any class B stockholder secured by warehouse receipts covering agricultural commodities stored in bonded warehouses without the purchase of additional class B stock."

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks".

(l) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation," and "corporation or", wherever they appear therein.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association."

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof, the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106 (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation."

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsec-

tion (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation."

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank."

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation," wherever they appear therein.

SEC. 109. Sections 658 and 1014 of title 8, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock."

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

(b) After the effective date of this act, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes, as amended, is amended (1) by inserting in next to the last sentence, immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions

herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

SEC. 202. (a) This act shall become effective on January 1 next following its enactment.

(b) For purposes of applying the amendment in section 103 of this act, that part of the fiscal year 1957 preceding the effective date of this act shall be deemed to be a separate fiscal year.

SEC. 203. (a) If any provision of this act, or the application thereof to any person or circumstance, is held invalid, the remainder of the act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this act is hereby expressly reserved.

The CHAIRMAN. The Clerk will report to the committee amendments.

The Clerk read as follows:

Committee amendment:

Page 2, line 1, strike out "farmer ownership" and insert in lieu thereof "increased farmer participation in the management, control, and ownership."

Page 3, line 5, strike out "to be held by him on behalf of the United States."

The committee amendments were agreed to.

The Clerk read as follows:

Committee amendment: Page 12, strike out lines 16 to 25, inclusive and the word "rata," and on page 13, insert the following: "In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, red discounting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of organization of the bank of the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

Mr. YATES. Mr. Chairman, I rise in opposition to the committee amendment.

The committee amendment makes available the assets of the merged banks in the event of liquidation or upon dissolution not only to the production credit

associations and the Government—if it has not yet been repaid on its stock—but also to the other financial institution. For the most part "other financial institutions" are the usual private banks which have loaned money to the farmers and which have made profits as a result of such loans. Why should they be given an additional profit? Certainly they never expected the added generous portion which this amendment grants to them. It will permit them to share in the distribution of the Government surplus funds in the event of the closing of the bank.

Mr. Chairman, it is more important that the taxpayers should be considered. The surplus funds belong to them and there should be an appropriate revision of this section in order to protect their interests, rather than those of other financial institutions. The committee amendment should be defeated.

Mr. POAGE. Mr. Chairman, I rise in support of the committee amendment.

Mr. Chairman, this is the identical question that was raised by the gentleman from California and this is the amendment which was referred to. The difference of opinion here actually refers to the question of whether or not you feel that the Government of the United States should go into this business as a profitmaking proposition or whether the Government went into this farm-credit business in order to render a service without expense or without profit to the Government. The committee took the view that the Government went into this, not to make a profit, but, rather, for the purpose of providing a service, if possible, without loss to the Government. This bill provides it shall be without loss to the Government, and so does the amendment. The very first thing in the amendment says "in the case of liquidation or dissolution" the assets shall go to the class A stockholders. The class A stockholders consist of the United States Government. If the Government investment has not been paid off at liquidation, the first money must go to the United States Government. It cannot go elsewhere. Until the Government is paid in full there cannot be a dollar go even to the borrowers of the institution. Only after the Government is paid in full can there be any distribution of any assets. Then they shall go, according to this amendment, to the holders not only of the class B stock but to the holders of certificates, and those holders of certificates are these other financial institutions, and the certificates will be merely a right in case of liquidation to share in the distribution of assets on the basis of the business that they have done with the institution.

Mr. YATES. Mr. Chairman, will the gentleman yield?

Mr. POAGE. I yield to the gentleman from Illinois.

Mr. YATES. Does not the original committee draft provide for the funds to go to the United States Government and to the farmer cooperatives alone on a pro rata basis rather than to the other financial institutions as well?

Mr. POAGE. No; I do not so understand. I understand the original draft

provides that the class A stock is to be paid in full.

Mr. YATES. Which is held by the Government?

Mr. POAGE. Yes. And shall be paid in full, and once it is paid off, the original draft of the bill would have paid all the rest of the assets to the class B stock.

Mr. YATES. The farm cooperatives then would get the balance?

Mr. POAGE. Yes.

Mr. YATES. But the amendment offered by the committee would permit private banking institutions to share in the funds on liquidation, would it not?

Mr. POAGE. That is exactly right. That is the difference. The Government's position is not changed by the amendment one iota. The question is simply whether these institutions, which in some of the districts are doing nearly a quarter of the business, and which in some districts are only doing a small part, should share in the earnings built up as the result of their business in case of liquidation or whether they should be completely ignored.

Mr. YATES. But are they not making money on the business they are doing?

Mr. POAGE. I presume some of them have and some have not. There have been over 1,200 and apparently there are only 94 left. So presumably some of those 1,100 did not make money, or they would have stayed in business. But, be that as it may, they are all trying to make money.

Mr. YATES. But the fact is that 94 are still in business, and they are the ones who will share in this distribution.

Mr. POAGE. I think that is right, but I do not think that it is necessarily a profitable business regardless of who is running it. The committee feels, regardless of the original merits of this matter, that it would be grossly unfair at this late date to come in and to say to those farmers who have borrowed money and to these institutions that have rediscounted their paper with the Intermediate Credit Bank, that we are going to change the rule and make it different from that which we prescribed back when the Government sold the land banks. I understand the gentleman from Illinois feels that we should follow a different policy, although I grant you that this amendment only relates to the difference between the surpluses of the various borrowers. We are not trying to penalize anyone, whether or not they may have made a profit. All of these institutions have rendered a service to farmers who needed credit.

Mr. SISK. Mr. Chairman, I rise in support of the amendment.

Mr. Chairman, I would like to call attention to the fact that in the matter of these so-called profits that these other institutions have made, we are not dealing normally with a group of large private banking institutions; that actually, I would like to say to my friend from Illinois, we are dealing primarily with agricultural credit groups and livestock companies, and so on, which generally are farmers or agriculturalists who have organized financial institutions which have been cooperative in this field. Actually very few of them

are so-called commercial banking institutions. And, they have contributed down through the years to the surplus which we are talking about now, and certainly to me I think they are entitled to share in case of liquidation, in case of distribution of this surplus, and I hope the amendment will be accepted.

The CHAIRMAN. The question is on the committee amendment.

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: On page 16, line 2, strike out "seven" and insert "five."

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: On page 16, line 12, strike out all of lines 12 and 13.

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: Page 16, line 14, strike out "(f)" and insert "(e)."

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: Page 16, line 20, insert:

"(f) Section 203 of the Federal Farm Loan Act, as amended, is amended (i) by inserting in subsection (a) thereof, after the words 'outstanding consolidated debentures', the words 'or other similar obligations'; and (ii) by inserting in subsections (d) and (e) thereof, after the word 'debentures' wherever used therein, except in the last sentence of subsection (d), the words 'or other similar obligations.'"

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: Page 18, line 18: after "act," strike out the remainder of the line down to and including "States" on line 20.

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: On page 19, line 22, insert a period after "borrowers."

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: On page 19, line 23, after the semicolon insert "and."

The committee amendment was agreed to.

The Clerk read as follows:

Committee amendment: On page 19, line 25, strike out the semicolon, insert a period and strike out the remainder of the sentence.

The committee amendment was agreed to.

Mr. POAGE. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. POAGE: On page 4 transpose lines 24 and 25.

Mr. POAGE. Mr. Chairman, this is merely a corrective amendment. The printer printed the lines in the wrong place.

The CHAIRMAN. The question is on the amendment of the gentleman from Texas.

The amendment was agreed to.

Mr. YATES. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. YATES: On page 11, line 7, after the word "refunds", strike out the period and insert "or as dividends."

Mr. YATES. Mr. Chairman, the gentleman from Texas [Mr. POAGE] and I have discussed this matter. It was his opinion that the bill prohibited the payment of dividends. I find no such provision in the bill. Therefore, in order to make sure that his understanding is correct, I offer an amendment to insert the words "or as dividends." Previously the gentleman indicated to me that he had no objection to this provision.

Mr. POAGE. Mr. Chairman, will the gentleman yield?

Mr. YATES. I yield to the gentleman.

Mr. POAGE. I have not any objection. I am sure none of the committee has any objection. It does exactly what we intend to do.

Mr. YATES. I thank the gentleman for accepting my amendment. I believe it adds a necessary safeguard to the bill.

The CHAIRMAN. The question is on the amendment offered by the gentleman from Illinois.

The amendment was agreed to.

Mr. THOMSON of Wyoming. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. THOMSON of Wyoming: On page 5, line 1, after the word "banks", strike out the period, insert a semicolon and "Provided, however, That no such reallocation shall be made by the Governor until this act has been in effect for a period of 5 years."

Mr. THOMSON of Wyoming. Mr. Chairman, I appreciate that the bill before the House for consideration deals with a highly technical and complicated subject. I further appreciate that legislation of such a nature cannot be well written on the floor of the House. I am further appreciative of the fact that the committee has given the subject of this bill very careful consideration and that such technical matters can best be considered in committee.

I take this means of bringing up the subject of this amendment for discussion at this time because of certain dangers that I believe may be encountered if this amendment is not incorporated in legislation as it is finally passed. At this time, due to economic conditions that exist in certain segments of our farm economy, if there is anything that we would not want to be responsible for, that would be to increase the cost of credit to people in farming and ranching activities. It is the thinking of my constituents who are identified with this very important program that such would be the effect of this legislation unless this amendment is incorporated. The section to which the amendment applies grants authority to the Governor of the Farm Credit Administration to reallocate the stock of all Federal intermediate credit banks. The amendment would defer the exercise of the authority for a period of 5 years from the effective date of the legislation.

From what I have heard from my constituents directly associated with the

Production Credit Association, I believe that they subscribe to the theory of ultimate complete ownership of the system by the production credit associations and their members. They however question the advisability of forcing the purchase of these agencies on the associations at this time, because of the belief that it will increase the cost of their operations which will necessarily be reflected in an increased interest rate to their members and borrowers.

Wyoming is in district No. 8. It is estimated that if the Governor of the Farm Credit Administration is given authority to immediately transfer capital, then, under this reallocation authority, this district No. 8 would lose about \$3,500,000 in capital which would result in a loss of approximately \$87,500 in income annually. The effect would then be double-barreled in that operating costs would go up as a result of the legislation and income would go down. This they believe would necessarily result in an increase in interest costs to the borrowers. The effect of this could be to enhance the capital in some districts to their advantage at the expense of other districts.

The effect of this amendment would be to defer the reallocation of capital for a period of 5 years. The 5-year period would allow time to develop expense-saving techniques. During this period the income from this additional capital would be available to offset the expenses usually incurred during any initial period of operation. Those district banks requiring additional capital structure now would not and should not be neglected. They could obtain paid-in surplus funds from the revolving fund to satisfy their needs.

This amendment was presented to the committee. I appreciate the consideration which was given to it. I do, though, believe that it should be given additional consideration as I am sure that no Member of Congress would want to increase interest rates to any section of our farm economy.

Because of the technical nature of the subject, I do not believe that it would be fair to expect the Members of this House to vote upon the amendment at this time and with the information that can be supplied here on the floor in the short presentation allowed under the rules. I offer the amendment to call it to the attention of the House at this time and to the attention of the appropriate committee of the other body. I sincerely hope that the committee of the other body will give it full consideration when the legislation is considered before that committee. Because of the fact that it is a technical subject, it is not my intention to bring the amendment to a vote at this time and if granted leave by the House, I expect to withdraw the amendment without bringing it to a vote.

Again I want to express my appreciation for the careful consideration that has been given to this legislation by the House committee and the attention given by the committee to this amendment.

Mr. McINTIRE. Mr. Chairman, will the gentleman yield?

Mr. THOMSON of Wyoming. I yield to the gentleman from Maine.

Mr. McINTIRE. I certainly assure the gentleman from Wyoming that the mat-

ter to which he refers was given consideration in the committee. It involves the matter of reallocation of capital as between the respective Federal intermediate credit banks.

I think I could make this observation from some opportunity to observe the operations of this system, that the reallocation of this money, which will be within the discretion of the Governor and those associated with him, it will be done very carefully to protect the soundness of the operations of the Federal intermediate credit bank in the gentleman's district. I can appreciate that this is a point about which the people in the gentleman's district in Wyoming are concerned, but I do think the legislation as set forth in this bill provides for the effective use of this capital and that his district will not be hurt in this process.

Mr. THOMSON of Wyoming. I especially thank the gentleman from Maine for his observation and his consideration of this problem as a member of the committee. As I said previously, our people, I believe, favor the farmers' taking over the ownership of these banks. They are merely questioning when and how it should be done. I thank the gentleman very much.

Mr. KEATING. Mr. Chairman, will the gentleman yield?

Mr. THOMSON of Wyoming. I yield to the gentleman from New York.

Mr. KEATING. I commend the gentleman on his alertness in bringing this to our attention and the very effective way in which he has done. I hope that if the gentleman does withdraw his amendment the views he has expressed will receive consideration when the other body takes up this matter.

Mr. THOMSON of Wyoming. I thank the gentleman from New York.

Mr. Chairman, I ask unanimous consent to withdraw the amendment.

The CHAIRMAN. Is there objection to the request of the gentleman from Wyoming?

There was no objection.

The CHAIRMAN. Under the rule, the Committee rises.

Accordingly the Committee rose; and the Speaker pro tempore [Mr. PRICE] having assumed the chair, Mr. MULTER, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, pursuant to House Resolution 508, he reported the bill back to the House with sundry amendments adopted by the Committee of the Whole.

The SPEAKER pro tempore. Under the rule, the previous question is ordered.

Is a separate vote demanded on any amendment? If not, the Chair will put them en gross.

The amendments were agreed to.

The SPEAKER pro tempore. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER pro tempore. The question is on the passage of the bill.

The question was taken, and the Speaker pro tempore announced that the ayes appeared to have it.

Mr. CHRISTOPHER. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER pro tempore. Obviously a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken, and there were—yeas 246, nays 4, answered "present" 1, not voting 181, as follows:

[Roll No. 56]

YEAS—246

Abbott	Dorn, N. Y.	McGregor
Abernethy	Dorn, S. C.	McIntire
Adair	Ellsworth	McMillan
Alger	Engle	McVey
Allen, Calif.	Fallon	Machrowicz
Andersen,	Fenton	Mack, Ill.
H. Carl	Fernandez	Mack, Wash.
Andresen,	Fino	Madden
August H.	Fisher	Magnuson
Andrews	Fjare	Mahon
Ashley	Flynt	Maillard
Aspinall	Fogarty	Marshall
Auchincloss	Forand	Matthews
Avery	Ford	Meador
Ayres	Forrester	Merrrow
Bailey	Frazier	Miller, Md.
Baker	Frelinghuysen	Miller, Nebr.
Baldwin	Friedel	Mills
Barrett	Gamble	Minshall
Bass, N. H.	Gary	Morrison
Beamer	Gathings	Multer
Bennett, Fla.	George	Mumma
Bennett, Mich.	Gordon	Murray, Ill.
Blatnik	Grant	Murray, Tenn.
Blich	Green, Oreg.	Natcher
Boggs	Gross	Nelson
Bolling	Haley	Nicholson
Bolton,	Hand	Norblad
Frances P.	Hardy	O'Brien, Ill.
Bonner	Harris	O'Hara, Ill.
Bow	Harrison, Nebr.	Ostertag
Boykin	Harrison, Va.	Passman
Boyle	Harvey	Perkins
Bray	Hays, Ark.	Pfost
Brooks, La.	Hayworth	Poage
Brooks, Tex.	Hébert	Poff
Brown, Ga.	Henderson	Polk
Brown, Ohio	Hiestand	Preston
Brownson	Hill	Price
Broyhill	Holmes	Priest
Budge	Horan	Quigley
Burdick	Huddleston	Ray
Burnside	Hull	Rees, Kans.
Bush	Hyde	Reuss
Byrne, Pa.	Ikard	Rhodes, Pa.
Byrnes, Wis.	Jackson	Riehlman
Cannon	James	Riley
Carrigg	Jensen	Robeson, Va.
Cederberg	Johnson, Calif.	Robison, Ky.
Celler	Johnson, Wis.	Rodino
Chase	Jonas	Rogers, Colo.
Chatham	Jones, Ala.	Rogers, Fla.
Chelf	Jones, Mo.	Rogers, Mass.
Chenoweth	Judd	Rogers, Tex.
Chudoff	Kean	Rooney
Church	Kearney	Schenck
Clark	Keating	Scherer
Clevenger	Kee	Schwengel
Colmer	Keogh	Scott
Cooley	Kilday	Selden
Coon	Kilgore	Short
Cooper	Kluczynski	Shuford
Coudert	Knox	Siler
Cramer	Knutson	Simpson, Ill.
Cretella	Laird	Sisk
Cunningham	Landrum	Smith, Kans.
Dague	Lankford	Smith, Miss.
Davis, Ga.	LeCompte	Smith, Va.
Davis, Tenn.	Long	Spence
Davis, Wis.	Lovre	Springer
Dawson, Utah	McCarthy	Staggers
Devereux	McConnell	Steed
Dies	McCormack	Sullivan
Dingell	McDonough	Talle
Dondero	McDowell	Teague, Calif.

Thompson, Mich.	Van Zandt Vorys	Williams, Miss.
Thompson, N. J.	Vursell	Williams, N. J.
Thompson, Tex.	Walter	Winstead
Tollefson	Weaver	Withrow
Trimble	Westland	Wolcott
Tuck	Wickersham	Wright
Udall	Wier	Young
Van Pelt	Wigglesworth	

NAYS—4

Bosch	Thomson, Wyo.
Christopher	Yates

ANSWERED "PRESENT"—1

Pelly

NOT VOTING—181

Addonizio	Gentry	O'Hara, Minn.
Albert	Gray	O'Konski
Alexander	Green, Pa.	O'Neill
Allen, Ill.	Gregory	Osmers
Anfuso	Griffiths	Patman
Arends	Gubser	Patterson
Ashmore	Gwinn	Philbin
Barden	Hagen	Phillips
Bass, Tenn.	Hale	Pilcher
Bates	Halleck	Pillion
Baumhart	Harden	Powell
Becker	Hays, Ohio	Prouty
Belcher	Healey	Rabaut
Bell	Herlong	Radwan
Bentley	Heseltan	Rains
Berry	Hess	Reece, Tenn.
Betts	Hillings	Reed, N. Y.
Boland	Hinshaw	Rhodes, Ariz.
Bolton	Hoeven	Richards
Oliver P.	Hoffman, Ill.	Rivers
Bowler	Hoffman, Mich.	Roberts
Buckley	Holfield	Roosevelt
Burleson	Holland	Rutherford
Byrd	Holt	Sadlak
Canfield	Holtzman	St. George
Carlyle	Hope	Saylor
Carnahan	Hosmer	Scrivner
Chiperfield	Jarman	Scudder
Cole	Jenkins	Seely-Brown
Corbett	Jennings	Sheehan
Crumpacker	Johansen	Shelley
Curtis, Mass.	Jones, N. C.	Sheppard
Curtis, Mo.	Karsten	Sieminski
Davidson	Kearns	Sikes
Dawson, Ill.	Kelley, Pa.	Simpson, Pa.
Deane	Kelly, N. Y.	Smith, Wis.
Delaney	Kilburn	Taber
Dempsey	King, Calif.	Taylor
Denton	King, Pa.	Teague, Tex.
Derounian	Kirwan	Thomas
Diggs	Klein	Thompson, La.
Dixon	Krueger	Thornberry
Dodd	Lane	Tumulty
Dollinger	Lanham	Utt
Dolliver	Latham	Vanik
Donohue	Lesinski	Velde
Donovan	Lipscomb	Vinson
Dowdy	McCulloch	Wainwright
Doyle	Macdonald	Watts
Durham	Martin	Wharton
Eberharter	Mason	Whitten
Edmondson	Metcalf	Widnall
Elliott	Miller, Calif.	Williams, N. Y.
Evins	Miller, N. Y.	Willis
Fascell	Mollohan	Wilson, Calif.
Feighan	Morano	Wilson, Ind.
Flood	Morgan	Wolverton
Fountain	Moss	Younger
Fulton	Moulder	Zablocki
Garmatz	Norrell	Zelenko
Gavin	O'Brien, N. Y.	

So the bill was passed.

The Clerk announced the following pairs:

On this vote:

Mr. Heseltan for, with Mr. Pelly against.

Until further notice:

Mr. Fountain with Mr. Arends.

Mr. Barden with Mr. Simpson of Pennsylvania.

Mr. Durham with Mr. Halleck.

Mr. Deane with Mr. Wolverton.

Mr. Carlyle with Mr. Allen of Illinois.

Mr. Alexander with Mr. Becker.

Mr. Denton with Mr. Belcher.

Mr. Dowdy with Mr. Kilburn.

Mr. Rabaut with Mr. Krueger.

Mr. Whitten with Mr. Wilson of Indiana.

Mr. Vinson with Mr. Taylor.

Mr. Lanham with Mr. Osmers.

Mr. Pilcher with Mr. Dolliver.

Mr. Rains with Mr. Hess.
Mr. Garmatz with Mr. Bentley.
Mr. Hays of Ohio with Mr. Betts.
Mr. Flood with Mr. Jenkins.
Mr. Fascell with Mr. Hosmer.
Mr. Elliott with Mr. Hoffman of Illinois.
Mr. Kirwan with Mr. Hoeven.
Mr. King of California with Mr. Hillings.
Mr. Thompson of Louisiana with Mr. Hoffman of Michigan.
Mr. Sikes with Mr. Sheehan.
Mr. Shelley with Mr. Reece of Tennessee.
Mr. Sheppard with Mr. Reed of New York.
Mr. Roberts with Mr. Derounian.
Mr. Rivers with Mr. Gavin.
Mr. Gregory with Mrs. Harden.
Mr. Watts with Mr. Berry.
Mr. Herlong with Mr. Baumhart.
Mr. Jennings with Mr. Kearns.
Mr. Jarman with Mr. Williams of New York.
Mr. Karsten with Mr. Utt.
Mr. Jones of North Carolina with Mr. Taber.
Mr. Addonizio with Mr. Rhodes of Arizona.
Mr. Albert with Mr. McCulloch.
Mr. Dodd with Mr. Patterson.
Mr. Miller of California with Mrs. St. George.
Mr. Mollohan with Mr. Saylor.
Mr. Morgan with Mr. Fulton.
Mr. Zablocki with Mr. Dixon.
Mr. Willis with Mr. Canfield.
Mr. Tumulty with Mr. Morano.
Mr. Roosevelt with Mr. Miller of New York.
Mrs. Griffiths with Mr. Latham.
Mr. Hagen with Mr. Corbett.
Mr. Kelley of Pennsylvania with Mr. Scrivner.
Mr. O'Neil with Mr. Seely-Brown.
Mr. Philbin with Mr. Holt.
Mr. Donohue with Mr. Hale.
Mr. Holland with Mr. Sadlak.
Mr. Ashmore with Mr. Smith of Wisconsin.
Mr. Bell with Mr. Wharton.
Mr. Boland with Mr. Wilson of California.
Mr. Bowler with Mr. Younger.
Mr. Byrd with Mr. Pillion.
Mr. Burleson with Mr. Prouty.
Mr. Carnahan with Mr. Mason.
Mr. Doyle with Mr. Lipscomb.
Mr. Delaney with Mr. Chiperfield.
Mr. Buckley with Gubser.
Mr. Donovan with Mr. Bates.
Mr. Zelenko with Mr. Johansen.
Mr. O'Brien of New York with Mr. Widnall.
Mr. Dollinger with Mr. Scudder.
Mr. Healey with Mr. Curtis of Massachusetts.
Mrs. Kelly of New York with Mr. Hinshaw.
Mr. Anfuso with Mr. Cole.
Mr. Klein with Mr. Curtis of Missouri.
Mr. Davidson with Mr. Wainwright.
Mr. Powell with Mr. Radwan.
Mr. Holtzman with Mr. O'Konski.
Mr. Feighan with Mr. Oliver P. Bolton.
Mr. Evins with Mr. Hope.
Mr. Holfield with Mr. King of Pennsylvania.
Mr. Sieminski with Mr. Crumpacker.
Mr. Green of Pennsylvania with Mr. McDonough.

Mr. PELLY. Mr. Speaker, I have a live pair with the gentleman from Massachusetts, Mr. HESLTON. If he were present, he would have voted "aye." I voted "no." Therefore, I withdraw my vote and vote "present."

The result of the vote was announced as above recorded.

The doors were opened.

A motion to reconsider was laid on the table.

TO SECURE A VOTE ON CIVIL RIGHTS

(Mrs. GREEN of Oregon asked and was given permission to address the

House for 1 minute and to revise and extend her remarks.)

Mrs. GREEN of Oregon. Mr. Speaker, we are all aware that this session of the Congress has only a few weeks remaining. Yet, one of the most important matters before this House has not yet been brought to the floor. H. R. 627, a bill to strengthen and protect the civil rights of all Americans, has now been reported from the Judiciary Committee. This bill is supported by the administration. It has the support of Members on both sides of this House. It is not and should not be a partisan issue. It should be brought promptly to the floor for debate and passage.

I want to include in my remarks the statement below, signed by Congressmen of both parties, stating our intention to file a discharge petition on H. R. 627 and our reasons for our action.

Mr. Speaker, the people of the United States are watching us and depending on us to act promptly and vigorously on this bill. They, too, know that time is short and that this bill is of the greatest importance. They rely on us to be sure that we act in good time. In order to keep faith with the people of this country we are taking this action to demonstrate, without partisan consideration, our determination that no precaution will be neglected to make sure that we meet our obligation and that this Congress consider and pass this needed legislation to assure to every American that, in the exercise of his personal rights, his Government offers support and protection.

MAY 29, 1956.

TO SECURE A VOTE ON CIVIL RIGHTS

On behalf of those Members interested in civil-rights legislation who attended a meeting held on Tuesday, May 29, the following statement is authorized:

It is the earnest hope of all Members that the Rules Committee will shortly grant a rule and that the leadership will schedule a vote on H. R. 627, the civil-rights bill. We particularly emphasize this because all Members prefer to follow the established and normal legislative procedure. It is for this reason that, in spite of tremendous pressure from our constituents, we have waited until the very last moment before initiating a procedure authorized by the House rules for the specific purpose of satisfying unusual situations.

We have, therefore, agreed in order that there may be a certainty of bringing H. R. 627 before the House for a decisive vote, that a petition to discharge the Rules Committee from further consideration of H. R. 627 will be placed on the Clerk's desk Tuesday, June 5. This is the very latest date possible in order to insure consideration of this petition as authorized by the Rules of the House on the fourth Monday in June—June 25. This will give barely 1 week to secure the necessary 218 signatures to qualify for consideration by June 25. Again, we would emphasize that this procedure is not intended as showing a lack of confidence in the Rules Committee, and we emphasize that the petition becomes inoperative if the Rules Committee acts at any time prior to 7 legislative days before June 25. It does, however, make sure that any difficulties encountered in the Rules Committee can be overcome by a majority of the House membership sufficiently prior to the closing rush of the session. We feel that the real sincerity of Members of both parties in their devotion to civil rights will be indicated by their willingness to sign this stand-by petition.

84TH CONGRESS
2D SESSION

H. R. 10285

IN THE SENATE OF THE UNITED STATES

JUNE 4, 1956

Read twice and referred to the Committee on Agriculture and Forestry

AN ACT

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

DECLARATION OF POLICY

5
6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculture with a sound, dependable,
8 and effective source of credit; to promote the efficiency of the
9 farm credit system by merging production credit corporations

1 in Federal intermediate credit banks and to facilitate
2 increased farmer participation in the management, con-
3 trol, and ownership of the merged banks and retirement
4 of Government capital therein; to encourage and pro-
5 mote the continued growth and development of the pro-
6 duction credit associations as self-supporting cooperative
7 lending institutions operating on a sound credit basis with
8 maximum local authority to determine credit needs and loan
9 policies consistent with the maintenance of a national pro-
10 duction credit system; and to continue to provide other
11 financing institutions making loans to farmers and ranchers
12 with the right to borrow from and rediscount with such
13 merged banks on a basis comparable with the production
14 credit associations regardless of the ownership of such banks.
15 The provisions of this Act shall be construed in keeping
16 with this declaration of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
20 TRANSFER OF ASSETS.—The production credit corporation in
21 each farm credit district is hereby merged in the Federal
22 intermediate credit bank of the district and all assets, funds,
23 contracts, property, and records belonging to such corpora-
24 tion, except stock in production credit associations, are
25 hereby transferred to and vested in such bank. All obliga-

1 tions and liabilities of the production credit corporation shall
2 be assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration and the Governor
6 shall cancel an equal par amount of stock of the corporation.

7 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
8 CREDIT ASSOCIATIONS.—In order to carry out the declared
9 policy of this Act with respect to the production credit asso-
10 ciations, the Farm Credit Administration shall, by appropri-
11 ate provisions in the charter and bylaws, or otherwise, pro-
12 vide for such organization and assignment of functions within
13 the Federal intermediate credit banks as will assure proper
14 supervision of and assistance to the production credit associa-
15 tions in a manner which will enable them to make sound
16 credit available to farmers and ranchers. The income de-
17 rived from the surplus transferred from the production credit
18 corporation to the Federal intermediate credit bank of the
19 district shall be used to pay expenses of the bank in pro-
20 viding such supervision and assistance, and expenses in ex-
21 cess of such income may be paid out of other resources of
22 the bank.

23 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
24 other provision of law, the employment of the officers and
25 employees of each Federal intermediate credit bank and

1 each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

11 SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

13 "CAPITAL STOCK

14 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
15 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
16 intermediate credit bank is authorized to issue class A and
17 class B stock as follows:

18 "(1) Class A stock shall have a par value of \$100
19 per share and shall be issued to and held by the Governor
20 of the Farm Credit Administration on behalf of the United
21 States. Stock of all Federal intermediate credit banks held
22 by the Secretary of the Treasury shall be transferred to the
23 Governor and may be reallocated by him in such manner
24 as he determines necessary to meet the needs of the respec-

1 tive banks. The Governor shall then exchange such stock
2 of each bank for an equal par amount of class A stock of
3 the bank. Stock of each production credit corporation held
4 by the Governor (less the amount canceled pursuant to
5 section 101 of the Farm Credit Act of 1956) shall be
6 exchanged for an equal par amount of class A stock of
7 the Federal intermediate credit bank in which such corpora-
8 tion is merged pursuant to section 101 of such Act. No
9 dividends shall be paid on class A stock. Annually at the
10 end of its fiscal year each such bank shall determine the
11 amount of its class A stock which shall be retired. When-
12 ever the total of the capital stock, participation certificates,
13 surplus, and reserves of the bank is more than one-sixth
14 of the highest month-end balance of debentures and other
15 obligations issued by or for the bank, outstanding during
16 the immediately preceding five years, the minimum amount
17 of class A stock to be retired shall be the total amount of
18 class B stock and participation certificates issued for that
19 year. All class A stock shall be retired at par. The pro-
20 ceeds of such class A stock retirements of each bank shall
21 be paid into the Treasury as miscellaneous receipts until
22 there is so paid a sum equal to the amount of class A stock
23 of the bank issued in exchange for stock of the production
24 credit corporation. The proceeds of any further such stock
25 retirements shall be paid into the revolving fund established

1 by section 5 (e) of the Farm Credit Act of 1933, as
2 amended. The Governor of the Farm Credit Administra-
3 tion is authorized to purchase from time to time class A
4 stock in any bank in such amount as he determines is needed
5 to meet the credit needs of the bank and such revolving
6 fund shall continue to be available for such purchases as
7 provided in said section 5 (e). The Governor may at any
8 time require the bank to retire such class A stock if, in
9 his judgment, the bank has resources available therefor,
10 and the proceeds of such retirements shall be returned to
11 such revolving fund.

12 “(2) Class B stock shall have a par value of \$5 per
13 share and may be issued only to production credit associations
14 in series and amounts approved by the Farm Credit Admin-
15 istration. Such stock shall be issued only at par and may
16 be transferred to another production credit association with
17 the approval of the issuing bank. Whenever a bank has no
18 class A stock outstanding it may pay like dividends on class
19 B stock and participation certificates in an amount not to
20 exceed 5 per centum in any year if declared by the board
21 of directors. Dividends on class B stock and participation
22 certificates shall not be cumulative. Within sixty days after
23 the effective date of the Farm Credit Act of 1956, the pro-
24 duction credit associations shall subscribe to class B stock
25 in the banks in an aggregate amount equal to 15 per centum

1 of the total amount of class A stock in all banks. Such
2 required amount of subscriptions shall be allotted among the
3 several districts in the proportion that the average amount
4 of the bank's loans to and discounts for the production credit
5 associations of the district, outstanding during the imme-
6 diately preceding five fiscal years, is of the average of such
7 loans and discounts of all banks outstanding during such five-
8 year period. The amount so allotted to each district shall be
9 further allotted to each production credit association on the
10 basis of the proportion that its average indebtedness (loans
11 and discounts) to the bank during the immediately preceding
12 five fiscal years is of the average of such indebtedness of all
13 production credit associations to the bank during such five-
14 year period. Each production credit association shall sub-
15 scribe to class B stock in the bank of the district in the
16 amount so allotted to it. One-third of the purchase price
17 of such stock subscription shall be paid at the time of such
18 subscription, one-third shall be paid within one year after
19 the effective date of said Act, and the balance shall be paid
20 within two years after such effective date. Such class B
21 stock shall be issued as payments therefor are made. Any
22 production credit association chartered after the effective date
23 of the Farm Credit Act of 1956 shall thereupon purchase
24 class B stock in the bank in the amount of \$5,000, and
25 such amount shall be adjusted at the end of five years there-

1 after to an amount determined by applying to its average in-
2 debtedness to the bank during such five-year period the
3 same percentage as the percentage which the initial sub-
4 scriptions of other production credit associations was of
5 their indebtedness, as provided in this subsection: *Provided*,
6 That this provision shall not apply to any association owning
7 stock in the bank in such required amount as a result of
8 merger, consolidation, or reorganization of one or more
9 associations. After all class A stock has been retired, the
10 bank may retire class B stock at par and participation cer-
11 tificates at a face amount under policies established by the
12 Farm Credit Administration. Class B stock and participa-
13 tion certificates shall be retired without preference and in
14 such manner that the oldest outstanding stock or certificates
15 at any given time will be retired first. In case of liquida-
16 tion or dissolution of any production credit association or
17 other financing institution, the stock or participation cer-
18 tificates of the bank owned by such association or institu-
19 tion may be retired by the bank at the fair book value thereof,
20 not exceeding par or face amount, as the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have a
23 first lien on all stock in the bank owned by each production
24 credit association and on all participation certificates owned
25 by other financing institutions as additional collateral for any

1 indebtedness of the holders thereof to the bank: *Provided*,
 2 That the bank shall make no loan or advance on the security
 3 of its own stock or participation certificates. In any case
 4 where the debt of a production credit association or other
 5 financing institution is in default, the bank may retire and
 6 cancel all or a part of the stock of the bank held by the
 7 association or of the participation certificates held by the
 8 other financing institution at the fair book value thereof,
 9 not exceeding par or face amount, as the case may be, in
 10 total or partial liquidation of the debt."

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
 12 as amended, is hereby amended to read as follows:

13 "APPLICATION OF EARNINGS

14 "SEC. 206. (a) ANNUAL APPLICATION.—At the end
 15 of its fiscal year, each Federal intermediate credit bank shall
 16 determine the amount of its net earnings after paying or
 17 providing for all operating expenses (including reasonable
 18 valuation reserves and losses in excess of any such applicable
 19 reserves) and shall apply such net earnings as follows: (1)
 20 To the restoration of the amount of the impairment, if any,
 21 of capital stock and participation certificates, as determined
 22 by its board of directors; (2) to the restoration of the amount
 23 of the impairment, if any, of the surplus account established
 24 by this subsection, as determined by its board of directors;

1 (3) 25 per centum of any remaining earnings shall be used
2 to create and maintain a reserve account equal to 25 per
3 centum of the outstanding capital stock and participation
4 certificates of the bank; (4) if said bank shall have out-
5 standing capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay
7 to the United States as a franchise tax, a sum equal to 25
8 per centum of its earnings then remaining, not exceeding,
9 however, a rate of return on such Government capital cal-
10 culated at a rate equal to the computed average annual rate
11 of interest on all public issues of public debt obligations of
12 the United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsec-
19 tion (b) of this section. Notwithstanding the provisions of
20 item (3) of this subsection, if at the end of any fiscal year
21 the sum of the surplus and the reserve account of any bank
22 is less than its outstanding capital stock and participation
23 certificates, the bank shall continue to apply such 25 per
24 centum of its net earnings to the reserve account until the
25 sum of the surplus and the reserve account is equal to its

1 outstanding capital stock and participation certificates. Each
2 bank shall, on the effective date of the Farm Credit Act
3 of 1956, establish a surplus account consisting of its earned
4 surplus account, its reserve for contingencies, and the surplus
5 of the production credit corporation transferred to the bank.
6 No part of such surplus of any bank shall be distributed as
7 patronage refunds or as dividends. In the event of a net loss
8 in any fiscal year after providing for all operating expenses
9 (including reasonable valuation reserves and losses in excess
10 of any such applicable reserves), such loss shall be absorbed
11 by: first, charges to the reserve account; second, charges to
12 surplus other than that transferred from the production credit
13 corporation of the district; third, charges to surplus trans-
14 ferred from the production credit corporation of the district;
15 fourth, the impairment of class B stock and participation
16 certificates; and fifth, the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end of
18 its fiscal year a Federal intermediate credit bank has class A
19 stock outstanding, patronage refunds declared for that year
20 shall be paid in class B stock to production credit associations
21 and in participation certificates to other financing institutions
22 borrowing from or rediscounting with the bank during the
23 fiscal year for which such refunds are declared. The recipi-
24 ents of such patronage refunds shall not be subject to Federal
25 income taxes thereon. Whenever at the end of its fiscal year

1 a Federal intermediate credit bank has no class A stock
2 outstanding, patronage refunds declared for that year may
3 be paid in such class B stock and participation certificates or
4 in cash as determined by the bank. All patronage refunds
5 shall be paid in the proportion that the amount of interest
6 earned by the bank on its loans to and discounts for each
7 production credit association or other financing institution
8 bears to the total interest earned by the bank on all such
9 loans and discounts outstanding during the fiscal year. Each
10 participation certificate issued in payment of patronage re-
11 funds shall be in multiples of \$5 and shall state on its face the
12 rights, privileges, and conditions applicable thereto. Patron-
13 age refunds shall not be paid to any other Federal inter-
14 mediate credit bank, or to any Federal land bank or bank
15 for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after payment or re-
19 tirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any re-
22 maining assets of the bank shall be distributed as provided
23 in this subsection. Any of the surplus established pursuant
24 to subsection (a) of this section (excluding that transferred
25 from the production credit corporation of the district) which

1 the Farm Credit Administration determines was contributed
2 by financing institutions, other than the production credit
3 associations, rediscounting with or borrowing from the bank
4 on the effective date of the Farm Credit Act of 1956 shall
5 be paid to such institutions, or their successors in interest as
6 determined by the Farm Credit Administration, and the re-
7 maining portion of such surplus (including that transferred
8 from the production credit corporation of the district) shall
9 be paid to the holders of class A and class B stock pro rata.
10 The contribution of each such financing institution under the
11 preceding sentence shall be computed on the basis of the ratio
12 of its patronage to the total patronage of the bank from the
13 date of organization of the bank to the effective date of the
14 Farm Credit Act of 1956. Any assets of the bank then re-
15 maining shall be distributed to the holders of class B stock
16 and the holders of participation certificates pro rata.”

17 SEC. 104. (a) Section 201 (b) of the Federal Farm
18 Loan Act, as amended, is hereby amended by adding at the
19 end thereof the following sentence: “The directors shall have
20 power, subject to the approval of the Farm Credit Adminis-
21 tration, to adopt such bylaws as may be necessary for the
22 conduct of the business of the banks.”

23 (b) Section 202 (a) of the Federal Farm Loan Act,
24 as amended, is hereby amended to read as follows:

1 “SEC. 202. (a) The Federal intermediate credit banks,
2 when chartered and established, shall have power, subject
3 solely to the restrictions, limitations, and conditions contained
4 in this Act or as may be prescribed by the Farm Credit Ad-
5 ministration not inconsistent with the provisions of this Act—

6 “(1) to discount for, or purchase from, any produc-
7 tion credit association organized under the Farm Credit
8 Act of 1933, as amended, with its endorsement, any
9 note, draft, or other such obligation presented by such
10 association; and to make loans and advances to any such
11 association secured by such collateral as may be ap-
12 proved by the Governor of the Farm Credit Ad-
13 ministration;

14 “(2) to discount for, or purchase from, any national
15 bank, State bank, trust company, agricultural credit
16 corporation, incorporated livestock loan company, sav-
17 ings institution, credit union, and any association of agri-
18 cultural producers engaged in the making of loans to
19 farmers and ranchers, with its endorsement, any note,
20 draft, or other such obligation the proceeds of which
21 have been advanced or used in the first instance for
22 any agricultural purpose, including the breeding, raising,
23 fattening, or marketing of livestock; and to make loans
24 and advances to any such financing institution secured
25 by such collateral as may be approved by the Governor

of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section; unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

“(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration.”

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word “three” to the word “five”.

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

“SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations.”

1 (e) Section 13 of the Federal Farm Loan Act, as
2 amended, is hereby amended by inserting in paragraph
3 "Seventeenth", after the words "Federal land banks", a
4 comma and the words "to Federal intermediate credit banks,
5 or to banks for cooperatives organized under the Farm
6 Credit Act of 1933, as amended,".

7 (f) Section 203 of the Federal Farm Loan Act, as
8 amended, is amended (i) by inserting in subsection (a)
9 thereof, after the words "outstanding consolidated debentures"
10 the words "or other similar obligations"; and (ii) by insert-
11 ing in subsections (d) and (e) thereof, after the word
12 "debentures" wherever used therein, except in the last
13 sentence of subsection (d), the words "or other similar
14 obligations".

15 SEC. 105. (a) Section 2 of the Farm Credit Act of
16 1933, as amended, is amended to read as follows:

17 "SEC. 2. The Governor of the Farm Credit Administra-
18 tion, hereinafter in this Act referred to as the 'Governor',
19 is authorized and directed to organize and charter twelve
20 banks to be known as 'banks for cooperatives'. One such
21 bank shall be established in each city in which there is
22 located a Federal land bank. The members of the several
23 farm credit boards of the farm credit districts provided for
24 in section 5 of the Farm Credit Act of 1937, as amended,
25 shall be ex officio the directors of the respective banks for

1 cooperatives. Such directors shall have power, subject to
 2 the approval of the Governor, to employ and fix the compen-
 3 sation of such officers and employees of such banks as may
 4 be necessary to carry out the powers and duties conferred
 5 upon such banks under this Act.”

6 (b) Section 3 of the Farm Credit Act of 1933 is
 7 amended by striking from the first sentence the words “the
 8 production credit corporations and” and by striking from
 9 the second sentence the words “corporations and”.

10 (c) Section 4 of the Farm Credit Act of 1933 is hereby
 11 repealed.

12 (d) Section 5 of the Farm Credit Act of 1933, as
 13 amended, is amended (1) by changing “\$120,000,000” in
 14 subsection (a) thereof to “\$60,000,000”; (2) by striking
 15 from subsection (b) thereof the words “the production credit
 16 corporations and”; (3) by changing “\$40,000,000” in sub-
 17 section (e) thereof to “\$100,000,000”; and (4) by striking
 18 from subsection (e) thereof the words “and/or paid-in
 19 surplus”.

20 (e) Section 6 of the Farm Credit Act of 1933, as
 21 amended, is amended to read as follows:

22 “INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
 23 CREDIT ASSOCIATIONS

24 “SEC. 6. The Governor may purchase class A stock of
 25 any production credit association in such amounts as he

1 determines are required to meet the credit needs of farmers
2 in the area served by such association. Payments for such
3 stock purchased by the Governor shall be made out of the
4 revolving fund authorized by section 5 (a) of this Act.
5 The Governor may at any time require any production
6 credit association to retire and cancel any class A stock
7 held by him in such association if, in his judgment, the
8 association has resources available therefor, and the proceeds
9 of such stock retirements shall be paid into such revolving
10 fund.”

11 (f) Section 20 of the Farm Credit Act of 1933 is
12 amended by changing the fourth sentence to read as fol-
13 lows: “Such articles shall be signed by the individuals unit-
14 ing to form the association and a copy thereof shall be
15 furnished to the Governor.”

16 (g) Section 21 of the Farm Credit Act of 1933, as
17 amended, is amended (1) by striking from the first sentence
18 the words “production credit corporations” and substituting
19 in lieu thereof the words “the Governor”; and (2) by
20 deleting the last sentence thereof.

21 (h) Section 22 of the Farm Credit Act of 1933, as
22 amended, is amended by striking out the words “production
23 credit corporation”, wherever they appear therein, and sub-
24 stituting in lieu thereof “Federal intermediate credit bank”.

25 (i) Section 23 of the Farm Credit Act of 1933, as

1 amended, is amended (1) by changing the first sentence
2 to read as follows: "Each production credit association shall,
3 under such rules and regulations as may be prescribed by
4 the farm credit board of the district with the approval of
5 the Farm Credit Administration, invest its funds and make
6 loans to farmers for general agricultural purposes and other
7 requirements of the borrowers."; (2) by deleting the second
8 sentence; and (3) by striking from the third sentence the
9 word "corporation" and inserting in lieu thereof the words
10 "Federal intermediate credit bank".

11 (j) Section 34 of the Farm Credit Act of 1933, as
12 amended, is hereby amended by adding before the semicolon
13 at the end of "(b)" the words "or to Federal land banks or
14 Federal intermediate credit banks".

15 (k) Section 41 of the Farm Credit Act of 1933, as
16 amended, is hereby amended by adding before the semicolon
17 at the end of "(b)" the words "or to Federal land banks
18 or Federal intermediate credit banks".

19 (l) Section 60 of the Farm Credit Act of 1933, as
20 amended, is amended (1) by striking from the first sentence
21 the words "the production credit corporations,"; (2) by
22 striking from the second sentence the words "association, or
23 corporation" and substituting in lieu thereof the words "or
24 association"; and (3) by striking from the third sentence
25 the words "production credit corporation or", "or corpora-

1 tion", and "corporation or", wherever they appear therein.

2 (m) Section 61 of the Farm Credit Act of 1933 is
3 amended (1) by striking from the first sentence the words
4 "production credit corporation,"; and (2) by striking from
5 the second and third sentences the words "association, or
6 corporation", wherever they appear therein, and substituting
7 in lieu thereof the words "or association".

8 (n) Section 62 of the Farm Credit Act of 1933, as
9 amended, is amended by striking out the words "production
10 credit corporations,".

11 (o) Section 63 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by striking from the first sentence
13 the words "the production credit corporations,"; (2) by
14 striking from the first and second sentences the words "asso-
15 ciations, or corporations" and "associations, and corpora-
16 tions," and substituting in lieu thereof, the words "or associ-
17 ations" and "and associations," respectively; and (3) by
18 changing the last sentence to read as follows: "The exemp-
19 tion provided herein shall not apply with respect to any
20 production credit association or its property or income after
21 the class A stock held in it by the Governor has been retired,
22 or with respect to any bank for cooperatives or its property
23 or income after the stock held in it by the United States
24 has been retired."

25 (p) Section 65 of the Farm Credit Act of 1933, as

1 amended, is amended (1) by striking out the words "pro-
2 duction credit corporation,"; and (2) by striking out the
3 words "association or corporation", wherever they appear
4 therein, and substituting in lieu thereof the words "or
5 association".

6 (q) Section 86a of the Farm Credit Act of 1933 is
7 hereby repealed.

8 SEC. 106. (a) Section 5 of the Farm Credit Act of
9 1937, as amended, is amended (1) by striking from sub-
10 section (d) (2) (B) the words "production credit cor-
11 poration of the district" and substituting in lieu thereof the
12 words "Governor of the Farm Credit Administration"; and
13 (2) by striking from subsection (h) the words "production
14 credit corporation,".

15 (b) Section 6 of the Farm Credit Act of 1937 is
16 amended (1) by striking from the first sentence of subsec-
17 tion (a) the words "production credit corporation,"; (2)
18 by striking from the third sentence of subsection (a) the
19 word "three"; (3) by striking from the first sentence of
20 subsection (b) the words "the bank for cooperatives, and
21 the production credit corporation" and substituting in lieu
22 thereof the words "and the bank for cooperatives"; and (4)
23 by striking from the last sentence of subsection (b) the
24 words "production credit corporation,".

25 SEC. 107. (a) Section 8 of the Farm Credit Act of

1 1953 is amended by striking out the words "production credit
2 corporation", wherever they appear therein, and substituting
3 in lieu thereof the words "Federal intermediate credit bank".

4 (b) Subsection (a) of section 16 of the Farm Credit
5 Act of 1953 is amended to read as follows:

6 " (a) Any other provisions of law to the contrary not-
7 withstanding, after the effective date of this Act any produc-
8 tion credit association may, with the approval of the Farm
9 Credit Administration, issue nonvoting preferred stock, to be
10 known as class C stock, which may be purchased and held
11 by the Governor of the Farm Credit Administration and by
12 investors: *Provided*, That the issuance of such stock shall be
13 authorized by vote of not less than two-thirds of the outstand-
14 ing shares of class A stock of the association (other than
15 shares held by the Governor of the Farm Credit Adminis-
16 tration) by the holders thereof in person or by proxy and
17 by vote of not less than two-thirds of the outstanding shares
18 of class B stock of the association by the holders thereof in
19 person or by proxy; and for this purpose holders of class A
20 stock (other than the Governor of the Farm Credit Ad-
21 ministration) and holders of class B stock shall be entitled
22 to one vote for each share of stock held by them. Payments
23 for such stock purchased by the Governor shall be made out
24 of the revolving fund created by section 5 (a) of the Farm
25 Credit Act of 1933, as amended, and the proceeds from the

1 retirement of any such stock shall be paid into such revolving
2 fund.”

3 SEC. 108. Section 601 of the Department of Agriculture
4 Organic Act of 1944, as amended, is hereby amended (1)
5 by striking from subsection (a) the words “production
6 credit corporations,” wherever they appear therein, and
7 the word “corporations,”; (2) by striking from subsection
8 (b) the words “the Federal intermediate credit banks, and
9 the production credit corporations” and substituting in lieu
10 thereof the words “and the Federal intermediate credit
11 banks”; and (3) by striking from subsections (b) and (c)
12 the words “and corporation”, “and corporations”, and “cor-
13 poration,” wherever they appear therein.

14 SEC. 109. Sections 658 and 1014 of title 18, United
15 States Code, are hereby amended by striking from each
16 such section the words “or in which a production credit
17 corporation holds stock”.

18 TITLE II—MISCELLANEOUS PROVISIONS

19 SEC. 201. (a) The Government Corporation Control
20 Act, as amended, is amended (1) by striking from section
21 101 the words “Federal Intermediate Credit Banks; Pro-
22 duction Credit Corporations,”; (2) by inserting in section
23 201 immediately following “(3)” the words “Federal Inter-
24 mediate Credit Banks, (4)”;

(3) by changing “(4)” in

1 section 201 to “(5)”; and (4) by striking from sections
2 302 and 303 the words “production credit corporations,”.

3 (b) After the effective date of this Act, the Federal
4 intermediate credit banks may utilize their funds for ad-
5 ministrative expenses without regard to the limitations con-
6 tained in any other Act of Congress governing the expendi-
7 ture of appropriated funds.

8 (c) Paragraph Seventh of section 5136 of the Revised
9 Statutes as amended, is amended (1) by inserting in next
10 to the last sentence immediately before the words “Federal
11 Home Loan Banks”, the words “thirteen banks for coopera-
12 tives or any of them or the”; and (2) by changing the last
13 sentence to read as follows: “The limitations and restrictions
14 herein contained as to dealing in and underwriting invest-
15 ment securities shall not apply to obligations issued by the
16 International Bank for Reconstruction and Development
17 which are at the time eligible for purchase by a national bank
18 for its own account: *Provided*, That no association shall
19 hold obligations issued by said bank as a result of under-
20 writing, dealing, or purchasing for its own account (and for
21 this purpose obligations as to which it is under commitment
22 shall be deemed to be held by it) in a total amount exceed-
23 ing at any one time 10 per centum of its capital stock ac-
24 tually paid in and unimpaired and 10 per centum of its
25 unimpaired surplus fund.”

1 SEC. 202. (a) This Act shall become effective on Jan-
2 uary 1 next following its enactment.

3 (b) For purposes of applying the amendment in sec-
4 tion 103 of this Act, that part of the fiscal year 1957 pre-
5 ceding the effective date of this Act shall be deemed to be a
6 separate fiscal year.

7 SEC. 203. (a) If any provision of this Act, or the ap-
8 plication thereof to any person or circumstance, is held
9 invalid, the remainder of the Act, and the application of such
10 provisions to other persons or circumstances, shall not be
11 affected thereby.

12 (b) The right to alter, amend, or repeal this Act is
13 hereby expressly reserved.

Passed the House of Representatives May 31, 1956.

Attest:

RALPH R. ROBERTS,

Clerk.

84TH CONGRESS
2D SESSION

H. R. 10285

AN ACT

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

JUNE 4, 1956

Read twice and referred to the Committee on
Agriculture and Forestry

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued June 7, 1956
For actions of June 6, 1956
84th-2nd, No. 93

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HIGHLIGHTS: Senate confirmed nomination of Seaton as Interior Secretary. Senate passed independent offices and general government matters appropriation bills. Senate committees reported bills to extend emergency farm-loan law, merge intermediate credit banks and poc's, and continue export control. Senate committee voted to report bills to repeal authority of FFMC to issue bonds, authorize feeding of CCC grain to waterfowl, approve an interstate forest fire compact, authorize land purchase in Cache Forest, require census data by economic class of farm, amend penal provision of CCC Charter Act, extend date for tobacco quota, authorize land exchanges with Defense Dept., eliminate requirement for quarantine notice, continue ACP, pay expenses of soil-water conservation advisory committee. Senate committee approved procedures to select site of animal disease laboratory, also 5 watershed reports. Senate passed rural libraries bill. House debated mutual security bill. Sen. Carlson suggested location of animal disease laboratory at Manhattan, Kans. Sen. (continued on page 5)

SENATE

1. NOMINATION of Frederick A. Seaton, to be Secretary of the Interior, was confirmed. p. 8632
2. GENERAL GOVERNMENT MATTERS APPROPRIATION BILL, 1957. Passed as reported this bill, H. R. 9536. Senate conferees were appointed. p. 8653
3. INDEPENDENT OFFICES APPROPRIATION BILL, 1957. Passed with amendments this bill, H. R. 9739. Senate conferees were appointed. p. 8653
Agreed to an amendment by Sen. Young to increase from \$100,000 to \$200,000 the amount for a survey of records management activities (p. 8659). Agreed to an amendment by Sen. Humphrey to strike out the prohibition against FTC statistical analyses of the consumer's dollar (p. 8661). Sen. Humphrey commended the work of the National Science Foundation (p. 8661).
4. FARM LOANS. The Agriculture and Forestry Committee reported with amendment

S. 3559, to amend the act of Aug. 31, 1954, so as to extend the availability of emergency credit to farmers and stockmen (S. Rept. 2144). p. 8634

This Committee also reported with amendments H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations (S. Rept. 2145). p. 8634

This Committee also voted to report S. 2530, to repeal the authority of the Federal Farm Mortgage Corporation to issue bonds. p. D576

5. EXPORT CONTROL. The Banking and Currency Committee reported with amendments H. R. 9052, to continue the Export Control Act for an additional 2 years (S. Rept. 2147). p. 8634
6. AGRICULTURE AND FORESTRY COMMITTEE voted to report the following bills: S. 2732, to authorize the Interior Department to feed CCC grain to waterfowl; S. 3032, approving the Middle Atlantic Interstate Forest Fire Protection Compact; S. 3132, providing for purchase of lands in the Cache National Forest; S. 3145, to require the Census Bureau to develop farm income data by economic class of farm; S. 3669, to amend the penal provision of the CCC Charter Act; S. 3261, to extend from Dec. 1 to Feb. 1 the date by which the national marketing quota for certain types of tobacco must be announced; S. 2572, authorizing exchange of forest lands, etc., with the Defense Department; S. 2585, to authorize exchange of a land tract at the Beltsville Agricultural Research Center; S. 3046, to eliminate the requirement that the Secretary of Agriculture notify officials of carriers of livestock of the existence of a contagion quarantine; S. 3120, to continue Federal administration of the Agricultural Conservation Program; S. 3314, authorizing payment of expenses of the Advisory Committee on Soil and Water Conservation; and S. 3344, authorizing conveyance to Alaska of certain lands in Sitka known as Baranof Castle site. The committee also approved (1) procedures outlined by USDA to set up an advisory committee to select a site for additional animal research facilities at a location other than Beltsville, and (2) the following 5 watershed projects: Little Newoka-Graves Creek, Okla.; Big Newoka, Okla.; Cummins Creek, Tex.; Upper Brushy Creek, Tex.; and Lower Brushy Creek, Tex. p. D576
7. PERSONNEL. The Post Office and Civil Service Committee reported without amendment S. 3681, to increase to \$5,000 the total amount a person may earn when holding more than one Federal job, without coming under the restriction of the dual compensation law (S. Rept. 2143). p. 8634
8. ANIMAL RESEARCH. Sen. Carlson suggested location of the animal disease laboratory at Manhattan, Kans. p. 8639
9. WHEAT. Sen. Carlson discussed the results of a survey by the Uhlmann Grain Co. regarding the 2-price wheat plan. p. 8639
10. POULTRY INSPECTION. Sen. Morse spoke in favor of legislation to require poultry inspection. p. 8642
11. TRANSPORTATION. Sen. Morse recommended that ICC hold a hearing on the freight-car shortage. p. 8670
Sen. Humphrey requested ICC to do what it can to alleviate the box-car shortage. p. 8677
12. FOREIGN AID. Sen. Humphrey inserted an article by Max Millikan and Walter Rostow recommending revamping of the foreign aid program. p. 8674

Calendar No. 2168

84TH CONGRESS }
2d Session }

SENATE

{ REPORT
No. 2145

FARM CREDIT ACT OF 1956

JUNE 6 (legislative day, JUNE 4), 1956.—Ordered to be printed

Mr. HOLLAND, from the Committee on Agriculture and Forestry, submitted the following

R E P O R T

[To accompany H. R. 10285]

The Committee on Agriculture and Forestry, to whom was referred the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, having considered the same, report thereon with the recommendation that it do pass with amendments.

The Farm Credit Act of 1953 required the Federal Farm Credit Board, established by that act, to study and make recommendations to Congress as to methods whereby increased borrower participation could be effected in the management, control, and ultimate ownership of institutions operating under the supervision of the Farm Credit Administration. The Federal land banks have been completely farmer-owned since 1947. The Farm Credit Act of 1955, enacted during the first session of the 84th Congress, adopted, with minor changes, the recommendations of the Federal Farm Credit Board with respect to the banks for cooperatives. H. R. 10285 contains the recommendations of the Federal Board with respect to the production credit corporations and the Federal intermediate credit banks by pro-

viding for merger of the production credit corporations into the Federal intermediate credit banks and the gradual retirement of the Government capital in these institutions. The enactment of this bill would provide the remaining legislation necessary to permit ultimate private ownership and management of all institutions operating under the Farm Credit Administration. Your committee believes that this bill would provide the means necessary to accomplish the major objective of the Farm Credit Act of 1953 and thereby provide a more effective credit service to agriculture.

The Senate companion bills, S. 3564, S. 3549, and S. 3550, were referred to a subcommittee which held extensive hearings and favorably reported the legislation in the form in which H. R. 10285 passed the House with the exception of minor amendments. The amendments recommended by the subcommittee and approved by the full committee would hold at the present level of \$130 million the aggregate amount of the two revolving funds available for the capitalization of the Federal intermediate credit banks and the production credit associations.

Attached hereto are the subcommittee report and the report of the House Committee on Agriculture which fully explain this legislation. The bill was passed by the House as reported by the House Agriculture Committee with a minor amendment, enlarging the prohibition against distribution of the surplus of any Federal intermediate credit bank as patronage refunds so that it also precludes distribution as dividends. The analysis contained in the House committee report has been revised slightly so that, as contained herein, it describes the bill with the amendments recommended by this committee.

REPORT OF THE SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE AND FORESTRY ON H. R. 10285

Your Subcommittee on Agricultural Credit and Rural Electrification, to whom was referred the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, having considered the same, report thereon with the recommendation that it pass with amendments.

The subcommittee amendments are as follows:

Page 5, line 22, after the word "to" insert "\$30,000,000 plus".

Page 8, line 11, strike out "a".

Page 17, line 17, strike out "\$100,000,000" and insert "\$70,000,000".

These amendments would have the effect of limiting the increase in the revolving fund available for capitalization of the Federal intermediate credit banks from \$40 million to \$70 million. As passed by the House, the bill would have increased this revolving fund to \$100 million. Under the bill as thus amended the aggregate amount of the two revolving funds for the capitalization of the Federal intermediate credit banks and the production credit associations would be held at the present level of \$130 million (now \$40 million for Federal intermediate credit banks and \$90 million for production credit). The Bureau of the Budget had questioned the need for an aggregate increase in these funds and your subcommittee, agreeing with the Bureau of the Budget, is of the opinion that the amounts provided in the amended bill are entirely adequate to meet the present and foreseeable credit needs of these farm credit institutions.

Your subcommittee carefully considered two other objections to the bill made by the Bureau of the Budget. As introduced, H. R. 10285 provided that, upon liquidation or dissolution of the credit banks, after provision for liabilities and retirement of all stock and participation certificates at par, any remaining portion of the surplus of the banks at the time of merger (amounting to approximately \$62 million) would be paid to class A (Government) and class B (production credit association) stockholders pro rata. As passed by the House, this provision was amended to give the OFI's (other financing institutions rediscounting with the banks) doing business with the banks at the time of merger an interest, upon liquidation or dissolution, in this surplus (exclusive of that part transferred from the production credit corporations) to the extent that they have contributed to it over the period of years since the banks were first organized in 1923. Your subcommittee feels that the OFI's are equitably entitled to the treatment accorded them by the House committee amendment and that the bill as passed by the House protects fully the interest of the OFI's as well as that of the production credit associations. The Bureau of the Budget, on the other hand, contends that if the banks are ever liquidated, all of the surplus on hand at the time of merger should be paid to the Treasury.

Your subcommittee does not agree with the Bureau of the Budget for several reasons. First, the provisions of the bill relating to the disposition of this surplus are substantially the same as the provisions of earlier legislation relating to the comparable surpluses of the banks for cooperatives and

the Federal land banks. The Congress has recognized that the surpluses of these institutions have been built up through the payment of interest by farmers in amounts greater than required to maintain the system. Your subcommittee can see no justification for not treating all farm credit institutions alike in this respect, particularly since Congress approved the provision for the banks for cooperatives last year over similar objections of the Bureau of the Budget. Furthermore, it should be noted that this bill affords even greater protection to the surplus by reason of the requirement that, if depleted by losses (the only way it could be depleted since it may not be paid out in patronage refunds or dividends) it must be restored before there can be any other distribution of earnings. Second, if the Government were given a continuing interest in the surplus as proposed by the Bureau of the Budget, the credit banks could never be fully farmer owned as was intended by the Farm Credit Act of 1953. Third, although most banks should pay out in a shorter period, it is estimated that it may take as much as 40 years for some banks to retire all of their Government capital. Thus, because of stock ownership, the Government will have an interest in the surplus for many years. Finally, under present law no credit bank has authority to liquidate voluntarily. If the Congress should give its consent to such liquidation, which seems unlikely, the Government would receive every dollar it has invested in the banks before there could be any distribution of the surplus since, under the bill, class A (Government) stock has first call on all assets in liquidation, subject only to the payment of debts.

The Bureau of the Budget also contends that the banks should remain under both the budget and the audit provisions of the Government Corporation Control Act until all Government-held stock has been retired. Your subcommittee feels that the provisions of that act should have the same application to the Federal intermediate credit banks as they now have to the banks for cooperatives and the Federal land banks. Therefore, the bill provides that only the audit provisions of that act shall apply to the credit banks, as is the case with the banks for cooperatives and the Federal land banks.

The principal purpose of the bill is to increase farmer participation in the management, control, and ownership of the Federal intermediate credit banks. It would carry out the recommendations made by the Federal Farm Credit Board with respect to the production credit corporations and the

Federal intermediate credit banks pursuant to the Farm Credit Act of 1953. The bill was generally supported at the hearings by the production credit associations and most of the farm organizations. It was generally opposed by the OFI's. The bill is fully explained in the report of the House Committee on Agriculture attached hereto (the analysis contained therein being revised to explain the bill with the amendments recommended by your subcommittee).

SPESSARD L. HOLLAND, *Chairman.*

HUBERT H. HUMPHREY.

W. KERR SCOTT.

KARL E. MUNDT.

ANDREW F. SCHOEPPPEL.

[H. Rept. No. 2160, 84th Cong., 2d sess.]

The Committee on Agriculture, to whom was referred the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The amendments are as follows:

Page 2, line 1, strike out "farmer ownership" and insert:

increased farmer participation in the management, control, and ownership.

Page 3, lines 4 and 5, strike out "to be held by him on behalf of the United States,".

Page 12, lines 16 through 25, strike out the sentence beginning on line 16 and substitute the following:

In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, redis-

counting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of organization of the bank to the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.

Page 14, line 25, strike out "seven" and insert "five".

Page 15, lines 10 and 11, strike out all of subsection (e).

Page 15, line 12, strike out "(f)" and insert "(e)".

Page 15, following line 17, insert the following:

(f) Section 203 of the Federal Farm Loan Act, as amended, is amended (i) by inserting in subsection (a) thereof, after the words "outstanding consolidated debentures" the words "or other similar obligations"; and (ii) by inserting in subsections (d) and (e) thereof, after the word "debentures" wherever used therein, except in the last sentence of subsection (d), the words "or other similar obligations".

Page 17, beginning on line 8, insert a period after "Act" and strike out the rest of the sentence.

Page 18, line 12, strike out "borrowers" and insert "borrowers."

Page 18, line 13, insert "and" after the semicolon.

Page 18, lines 15 through 22, strike out the semicolon on line 15, insert a period, and strike out the rest of the sentence.

STATEMENT

Section 2 of the Farm Credit Act of 1953 (Public Law 202, 83d Cong., approved August 6, 1953) states that it is the policy of the Congress "to encourage and facilitate increased borrower participation in the management, control, and ultimate ownership of the permanent system of agricultural credit made available through institutions operating under the supervision of the Farm Credit Administration." That section also requires the Federal Farm Credit Board, established under the provisions of that act, to make legislative recommendations for carrying that policy into effect, including means of increasing borrower participation in the ownership of the Federal Farm Credit System to the end that the investment of the United States in the Federal intermediate credit banks, the production credit corporations and the banks for cooperatives may be retired.

Pursuant to the obligation imposed upon it by the 1953 act, the Federal Farm Credit Board made recommendations in December 1954 relating primarily to the banks for cooperatives and the production credit corporations. The Farm Credit Act of 1955 (Public Law 347, 84th Cong., approved August 11, 1955) contained the recommendations of the Federal Board with respect to the banks for cooperatives.

The recommendations of the Board with respect to the production credit corporations were not enacted because objections voiced at the hearings indicated that the matter needed further study. In addition, the Federal Board had made no recommendation concerning the retirement of the Government capital in the Federal intermediate credit banks and the committee thought it advisable to consider legislation for retirement of Government capital in both the corporations and the credit banks at the same time. Accordingly, the committee requested the Federal Board to give further study to the short-term credit institutions and to make new recommendations at the second session of this Congress.

The recommendations of the Federal Board relating to the production credit corporations and the Federal intermediate credit banks were submitted to the Congress on March 16, 1956. H. R. 10285, reported herewith, embodies these recommendations of the Federal Board.

At the hearings on the bill numerous witnesses, including representatives of the major farm organizations, appeared in support of the measure, although one farm organization suggested an amendment and another, while not endorsing any bill, favored legislation to provide for completing the "mutualization" of the Farm Credit System and the retirement of the remaining Government capital therein. The amendment suggested by the farm organization would have permitted other financing institutions (usually referred to in this report as "OFI's") organized and operated on a cooperative basis to participate in the purchase of the banks.

Representatives of financing institutions, other than the production credit associations, rediscounting with and borrowing from the intermediate credit banks were generally opposed to the bill. These institutions (the OFI's) were opposed to any legislation which would convert the intermediate credit banks to farmer ownership. They would prefer to see the banks continue wholly Government owned. It was the position of some, however, that if the Congress felt compelled to enact legislation, the OFI's should be afforded the opportunity to participate in the purchase and operation of the credit banks on the same basis as the production credit associations. Other OFI's stated that if legislation must be passed, it should provide for the retirement of Government capital in the banks out of earnings and that upon retirement of all Government held stock, the credit banks should become nonstock "public trusts" supervised by the Farm Credit Administration and operated in the interest of all users of the banks.

Except for the OFI's, only three witnesses appeared in opposition to the bill, and their objections were concerned as much with the timing of the legislation as with its content. One of the witnesses requested merely that the effective date of the legislation be delayed for an extended period beyond that proposed in the bill.

With one exception, the committee made only minor changes in the bill. These changes will be discussed in more detail in the report.

FEDERAL FARM CREDIT SYSTEM

There are in each of the 12 farm credit districts a Federal land bank, a Federal intermediate credit bank, a production credit corporation, and a bank for cooperatives. There is a Central Bank for Cooperatives located in the District of Columbia. Each district has a district farm credit board which also serves as the board of directors of each

of the four district institutions. Each district farm credit board consists of 7 members, 2 elected by the national farm loan associations of the district, 2 by the production credit associations of the district, 1 by the cooperative associations which hold voting stock in the district bank for cooperatives, and 2 appointed by the Governor of the Farm Credit Administration.

The Federal land banks provide farmers and ranchers with long-term credit on farm real estate through approximately 1,100 national farm loan associations. The Federal intermediate credit banks discount agricultural paper for and make loans to production credit associations and other financing institutions (OFI's) which make short-and intermediate-term loans to farmers and ranchers. The production credit corporations are not themselves engaged in making loans but supervise the production credit associations. The banks for cooperatives extend credit to farmers' cooperative marketing, purchasing, and service cooperatives.

The cooperative Federal Farm Credit System provides qualified farmers with credit on a sound basis adapted to their needs and at interest rates based on the cost of money in the market plus the cost of operating the system, including provision for adequate reserves. Funds which are loaned by the farm credit institutions are obtained largely from the sale of bonds and debentures to the investing public.

Each borrower from a Federal land bank is required to become a member of the national farm loan association through which the loan is made. The association is a farmer-owned cooperative organization chartered and supervised by the Farm Credit Administration. The borrower purchases capital stock of the association in an amount equal to 5 percent of the amount of his loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. Farmer members own all the capital stock of each of the approximately 1,100 national farm loan associations; and the associations, in turn, own all of the capital stock of the Federal land banks. The Federal land bank system is completely farmer-owned and has been since 1947 when the last of the Government capital was retired.

The production credit associations are cooperative organizations chartered by the Farm Credit Administration and supervised by the production credit corporations and the Farm Credit Administration. Each borrower from a production credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. The amount of class A (nonvoting) stock of the associations originally owned by the production credit corporations has been reduced from a peak of \$90 million to about \$2.2 million and 440 of the 498 associations are now entirely farmer-owned. Many members of the associations also own substantial amounts of class A stock. The production credit associations are, therefore, rapidly becoming wholly farmer-owned.

Under the provisions of the Farm Credit Act of 1955, enacted during the 1st session of the 84th Congress, each borrower from a bank for cooperatives is required to purchase each quarter class C (voting) stock in the bank in an amount related to the quarterly interest payable on its loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). The annual net earnings of the banks, after reserves, dividends on class B (investment) stock, and franchise taxes are provided for, are

required to be distributed in class C stock to borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in a minimum amount equal to the amount of class C stock issued for that year. Over a reasonable period of years it is expected that funds from the interest "override" and from net earnings will enable the banks to retire all class A stock now owned by the United States.

Two farm credit institutions—the production credit corporations and Federal intermediate credit banks—have always been and still are wholly Government-owned. Present law does not provide any means of converting either of them to farmer-owned institutions. H. R. 10285 would provide such means and thus make it possible to complete the job of converting all institutions supervised by the Farm Credit Administration to wholly farmer-owned institutions.

FEDERAL INTERMEDIATE CREDIT BANKS

The Federal intermediate credit banks were established in 1923 with an initial authorized capital of \$5 million for each bank subscribed by the United States. Additional capital for the credit banks was provided by an act of Congress approved January 31, 1934 (48 Stat. 348). That act made available to the Farm Credit Administration a revolving fund of \$40 million and authorized the Governor, with the approval of the Secretary of the Treasury, to subscribe for and to pay in such additional capital and paid-in surplus as he deemed necessary to enable the credit banks to meet the needs of eligible borrowers. As of December 31, 1955, the Government's capital investment in the banks was \$62.4 million, consisting of the original \$60 million of capital stock and \$2.4 million of paid-in surplus, leaving \$37.6 million in the revolving fund available for further investment in the banks.

The credit banks were established to provide agriculture with a permanent, stable, and dependable source of short-and intermediate-term agricultural credit. They serve as banks of discount and not as direct lending banks. They were authorized initially to discount agricultural paper for a number of different kinds of private lending agencies and later were also authorized to discount such paper for the production credit associations organized under the Farm Credit Act of 1933. Thus the banks make no loans direct to farmers and ranchers but instead finance the production credit associations and the OFI's which make such direct loans. In addition, the banks are authorized to make loans to and discount paper for the banks for cooperatives and to make certain types of direct loans to farmers' cooperative associations.

As a result of the growth and development of the production credit system supervised by the Farm Credit Administration, the major part of the credit business of the banks is now done with the production credit associations. During the fiscal year 1955 about 88 percent of the banks' average daily balances of loans and discounts was accounted for by the production credit associations. Among the districts this percentage ranged from 66 to 96 percent.

Most of the OFI's doing business with the credit banks are State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, together with a few commercial banks.

The credit banks finance their lending operations primarily through the issuance and sale to the investing public of consolidated collateral

trust debentures and by direct borrowings from commercial banks. The United States assumes no liability for the debentures or other obligations of the credit banks.

PRODUCTION CREDIT CORPORATIONS

The production credit corporations organized under the Farm Credit Act of 1933, like the Federal intermediate credit banks, are wholly owned Government corporations. A revolving fund of \$120 million was used to capitalize these corporations. As of December 31, 1955, the amount of stock of the corporations held by the United States amounted to \$31,350,000 and the earned surplus and reserves of the corporations amounted to approximately \$13,500,000. There remains in the revolving fund \$58,650,000 for future subscriptions to stock of the corporations, \$30 million having been returned in 1949 from the revolving fund to the general fund of the Treasury.

The production credit corporations provide service to and supervise the production credit associations. They prescribe general loan policies for the associations and guide them in the application of sound credit principles. The corporations make credit examinations of outstanding loans on behalf of the Governor and review lending and collection policies of the associations. The corporations supplement the capital of production credit associations when necessary and appropriate. They also see that the associations return the corporation-owned capital as rapidly as conditions will permit. The corporations prescribe or approve interest rates charged by the associations. They approve the compensation of association personnel and generally guide the associations in the conduct of their business.

PRODUCTION CREDIT ASSOCIATIONS

The production credit associations are federally chartered corporations which make short- and intermediate-term loans to farmers and ranchers within designated areas. Like the production credit corporations, the associations were organized under the Farm Credit Act of 1933. Each production credit association has two classes of stock—class A (nonvoting) which may be issued to a production credit corporation or to farmer members and other investors, and class B (voting) stock which may be issued only to member borrowers. The associations are also authorized under conditions stated in the Farm Credit Act of 1953 to issue class C stock but so far none has been issued.

The production credit corporations furnished almost all of the initial capital of the production credit associations through the purchase of class A stock. Over the years, farmers have purchased substantial amounts of class A stock in their associations. Through purchases of stock and the building up of reserves and earned surplus, the associations have been able to retire most of the \$90 million of capital stock once held by the production credit corporations. As of December 31, 1955, less than \$2.2 million of the capital stock of the associations was owned by the production credit corporations and 440 of the 498 associations are now entirely member owned.

COMMITTEE AMENDMENTS

With the exception of perfecting and clarifying amendments, the following is an explanation of the committee amendments to the bill:

Section 103

This section amends section 206 of the Federal Farm Loan Act, as amended, to provide a new method of distribution of the net earnings of the Federal intermediate credit banks. This section also adds a new provision relating to the distribution of the assets of the banks in the event of their liquidation. Under the language of the bill as introduced the surplus of the banks on the day of merger, amounting to about \$62 million, would have been paid to the holders of class A (Government) stock and the holders of class B (production credit association) stock pro rata. The amendment made by the committee would give those OFI's doing business with the banks on the day of merger an interest in such surplus (exclusive of that portion transferred from the production credit corporations) to the extent that the Farm Credit Administration determines they have contributed to it over the period of some 33 years the banks have been in business. This interest of the OFI's would be computed on the basis of the percentage which their business is of the total volume of business done by the banks since their organization in 1923. Thus, under the language of the amendment, the OFI's would share proportionately in whatever amount of such surplus remains on the day of liquidation. Since the OFI's have contributed to building the portion of the surplus in question (amounting to about \$50 million), the committee feels that they are equitably entitled to share proportionately in whatever amount of such surplus remains if and when the banks are liquidated. The remaining portion of such surplus (including the surplus transferred from the production credit corporations in which the OFI's would have no interest) would, as under the original language of the bill, be prorated among the holders of class A and class B stock. While liquidation of the banks is not contemplated or foreseeable, it is necessary to provide for that eventuality in order to resolve questions of ownership contemplated by the policy declaration of the Farm Credit Act of 1953.

Section 104

Under present law the credit banks have authority to discount paper with maturities up to 3 years. Section 104 (c) of the bill as introduced would have increased this limit to 7 years. While some increase is needed to permit production credit associations and OFI's to meet the demands of farmers and ranchers for longer term loans, particularly for semicapital purposes such as purchases of heavy farm machinery and equipment, the committee believes that a period of 7 years is too long. The committee amendment would reduce the limit in the bill to 5 years. This change would enable primary lenders to provide more effective credit service in this field to farmers and ranchers.

The committee also deleted from the bill section 104 (e) which would have repealed the prohibition in existing law against the credit banks, without the approval of the Farm Credit Administration, discounting notes and other obligations upon which the original borrower was charged a rate of interest exceeding by more than 1½ percent the discount rate of the bank. The committee feels that this provision of the

present law should be retained as a deterrent against excessive interest charges by lenders who wish to avail themselves of the facilities of the credit banks. While competition may accomplish this objective under normal conditions, it seems safer to retain this authority in the Farm Credit Administration.

Section 105

Section 105 (i) of the bill as introduced would have permitted the production credit associations to make loans to their members secured by agricultural commodities stored in bonded warehouses without the purchase of additional class B stock. This provision of the bill is contrary to the requirement, which was a part of the original law setting up the production credit system, that each borrower must own class B stock in an amount equal to 5 percent of the loan. This requirement is basic to the system and has been a principal factor in building the present financial strength of the associations. The committee has deleted this provision from the bill because it is thought that, in the long run, the provision would do more to weaken the system than to strengthen it.

In regard to the recommendation by certain OFI's that the bill be amended to give them the opportunity to participate in the ownership and operation of the banks on the same basis as the production credit associations, the committee is of the opinion that this would not be consistent with the policy with respect to farm credit institutions as set out in the Farm Credit Act of 1953. The OFI's are, for the most part, organized and operated for profit and are not farmer owned. Those which are farmer owned are State-chartered and not federally supervised. The production credit associations, which contribute nearly 90 percent of the business of the banks, are federally chartered and supervised and are charged with a public responsibility as Federal instrumentalities.

The Federal land banks became farmer owned several years before enactment of the 1953 act. Farmer ownership of the remaining district institutions was declared to be a major objective of that act. The Farm Credit Act of 1955 provided the necessary legislation to facilitate farmer ownership of the banks for cooperatives and the bill reported herewith would enable the remaining institutions to accomplish that objective.

The committee is satisfied that the proposed bill adequately protects the interest of the OFI's. The declared policy and various specific provisions of the bill make it abundantly clear that the facilities of the credit banks shall continue to be available to the OFI's on the same basis as the production credit associations regardless of the ownership of the banks.

The committee gave particular study to two provisions of the bill relating to personnel of the merged institutions (sec. 101 (c)) and to the retirement of class B stock of the production credit associations after all Government-owned stock is retired (sec. 102).

The committee was assured by officials of the Farm Credit Administration that reductions in personnel of the production credit corporations and the Federal intermediate credit banks would be brought about largely by not filling existing vacancies and by normal retirements and resignations. Under the provisions of the bill, only a few of those now employed by the corporations and the banks would not be retained by the merged institutions. It should be remembered also

that under the provisions of the bill decisions on personnel matters would rest with the local board of directors in each district which could be expected to deal with personnel in an understanding and sympathetic manner.

Some fear was expressed at the hearings that the bill might permit the banks, after all Government-held stock has been retired, to retire all class B stock and thereby convert the banks into nonstock public trust institutions. It is the opinion of the committee, however, that under the provisions of the bill such action could not be taken consistent with the declared policy of the legislation to facilitate farmer ownership of the credit banks. It is the intent of the legislation to convert these banks into farmer-owned institutions and it would be necessary at all times to have class B stock outstanding in order to accomplish that objective. The committee, therefore, felt that no amendment was needed in this respect and that the provisions of the bill as reported preclude any action on the part of the banks or the Farm Credit Administration to retire completely all class B stock.

ANALYSIS OF THE BILL (WITH SENATE COMMITTEE AMENDMENTS)

Short title

Section 1 provides that the short title of the bill shall be the "Farm Credit Act of 1956."

Declaration of policy (sec. 2)

Section 2 contains a statement of policy with respect to the proposed bill with major emphasis upon the continued growth and development of the production credit associations. The express policy would be to give maximum authority to the production credit associations to determine the credit needs and loan policies best adapted to the areas which they serve, consistent with the maintenance of a well coordinated national production credit system. The policy would also include assurance to other financing institutions of the continued right to borrow from and to rediscount agricultural paper with the credit banks on a basis comparable with production credit associations.

TITLE I—PRODUCTION CREDIT SYSTEM

Merger of production credit corporations in Federal intermediate credit banks (sec. 101)

Section 101 would provide for the merger of the production credit corporation of each district in the Federal intermediate credit bank of the district. Except for stock in the production credit associations, all assets of the corporation would be transferred to the bank. The bank would also assume all obligations and liabilities of the corporation. Stock held by the corporation in production credit associations would be transferred to the Governor and he would cancel an equal par amount of stock which he now holds in the corporation.

Except for a few functions vested in the Farm Credit Administration, the functions of the production credit corporations in supervising the production credit associations would be transferred to the Federal intermediate credit banks. In order to carry out the declared policy with respect to the production credit associations, the Farm Credit Administration would be required to provide, by provisions in the charter and bylaws of the banks, or by rules and regulations, or both,

such an organizational setup in the banks as would assure proper supervision of and assistance to the production credit associations to enable them to carry out their function in extending credit to farmers and ranchers. This would be done in a way which would preserve the autonomy of the local associations consistent with the operation of an effective national production credit system. The income derived from surplus transferred from the corporations to the credit banks would be devoted to the payment of the additional expense of such supervision and assistance. This provision would not require a segregation of either such income or expense, hence no additional accounting cost would be involved.

Section 101 would also provide for the termination of the employment of present officers and employees of the production credit corporations and Federal intermediate credit banks but would require the board of directors of each bank, subject to the approval of the Farm Credit Administration, to select the officers and employees of the bank from the old officers and employees of both institutions, to the extent that they are qualified and needed. However, the board would not be bound to reemploy an officer or employee in the same capacity in which he was employed just prior to the effective date of the bill. The bill would require the board, not later than 60 days before the effective date of the bill, to take the necessary action to reemploy such officers and employees as of such effective date. Thus there would be no break in continuity of service of such officers and employees.

Stock of the Federal intermediate credit banks (sec. 102)

Section 102 of the bill would amend section 205 of the Federal Farm Loan Act to provide two classes of stock for the Federal intermediate credit banks: Class A, which would have a par value of \$100, and class B, which would have a par value of \$5.

Under present law, there is but one class of stock for the Federal intermediate credit banks and production credit corporations, all of which is owned by the United States.

Class A stock.—Existing stock of each credit bank held by the Secretary of the Treasury on the effective date of the bill, amounting to \$60 million for all 12 banks, would be transferred to the Governor of the Farm Credit Administration. The Governor would then be authorized to reallocate the stock of the banks, by appropriate transfers of capital funds between banks, as he determined necessary to meet the needs of each bank. Following such adjustment, the then existing stock of each bank would be exchanged for an equal par amount of class A stock of the bank. Stock of the production credit corporation of the district held by the Governor on the effective date of the bill, less the amount canceled pursuant to section 101 (a) of the bill, would be exchanged for an equal par amount of class A stock of the bank. All class A stock to be issued by the credit banks would be held by the Governor on behalf of the United States. No dividends would be paid on class A stock. At the end of each fiscal year, each bank would be required to determine the amount of class A stock to be retired. Whenever the net worth of the bank amounts to more than one-sixth of its peak outstanding debentures and other such obligations, during the immediately preceding 5 years, the minimum amount of such stock which the bank would be required to retire would be the total amount of class B stock and participation certificates issued for

that year. Whenever the net worth of the bank amounts to one-sixth or less of such outstanding debts, the amount of class A stock to be retired would be determined by the bank. As hereinafter explained, the net earnings of the bank, after reserves and franchise taxes are provided for, would be distributed in class B stock to production credit associations and in participation certificates to other financing institutions patronizing the bank.

The proceeds from class A stock retirements of each bank would be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to \$30 million plus the amount of class A stock of the bank issued in exchange for the stock of the production credit corporation of the district. The proceeds of any further retirements of class A stock of the bank would go into the revolving fund created by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor would be authorized to use such revolving fund to purchase class A stock of the banks and would have discretion to determine when such stock should be retired, the proceeds from which would go back into the revolving fund.

Class B stock.—Class B stock would be issued only to production credit associations. This stock would be acquired in two ways: first, by an initial subscription by each association and, second, through distribution of earnings on a patronage basis in class B stock. The initial subscriptions of all production credit associations would equal 15 percent of the total amount of class A stock of all 12 banks. This amount would be apportioned among the associations on the basis of their use of the banks over a representative period. Consequently, the bill provides for such apportionment in two steps: first, the total amount of such subscriptions would be allotted by districts on the basis of the ratio of (1) the average amount of loan and discount indebtedness of the production credit associations of the district during the immediately preceding 5 years to (2) the average amount of such indebtedness of all associations to all banks during such 5-year period; and, second, the portion so allotted to the district would then be further allotted to individual associations on the basis of the ratio of (1) the average loan and discount indebtedness of each association during the immediately preceding 5 years to (2) the average of such indebtedness of all associations to the bank during such 5-year period. A bank might also sell additional class B stock with the approval of the Farm Credit Administration. The purchase price of the initial stock subscription required of each production credit association would be paid over a period of 2 years following the effective date of the bill. Noncumulative dividends of not to exceed 5 percent in any year could be paid without preference on class B stock and participation certificates after all class A stock has been retired. Any association chartered after the effective date of the bill would be required to make an initial investment of \$5,000 in class B stock, but that amount would be adjusted at the end of 5 years to an amount determined by applying to its average indebtedness to the bank the same percentage as the percentage which the initial subscriptions of all other production credit associations was of their indebtedness. After all class A stock is retired, the bank may retire class B stock at par and participation certificates at face amount in accordance with the cooperative principle of retiring first the oldest outstanding stock and certificates. It is intended, however, that a bank would at all times have some class B

stock outstanding. Only in this way would it continue to be farmer owned consistent with the declared policy of the legislation. In the event of liquidation or dissolution of a production credit association or other financing institution, the bank could at any time also retire at fair book value, not exceeding par or face amount, class B stock and participation certificates of the bank owned by such association or institution.

Lien on stock and participation certificates.—The bank would have a first lien on all stock in the bank owned by production credit associations and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders to the bank. The bank would be prohibited, however, from making any loan or advance on the security of its own stock or participation certificates. If the debt of a production credit association or other financing institution is in default, the bank could retire and cancel the debtor's stock or participation certificates in the bank at the fair book value, not exceeding par or face amount, in total or partial liquidation of the debt.

Application of earnings; distribution of assets upon liquidation (sec. 103)

Section 103 of the bill would amend section 206 of the Federal Farm Loan Act to provide a new method of application of net earnings of the banks. The net earnings of a bank would be the amount of income remaining after all operating expenses are paid or provided for, including the establishment of reasonable valuation reserves and the making good of any losses in excess of any such applicable valuation reserves. The net earnings would be applied as follows:

1. *Restoring impairment of capital stock and participation certificates.*—If the board of directors determines that the capital stock and the participation certificates of the bank are impaired, the net earnings would be applied first toward the restoration of the amount of such impairment.

2. *Restoring impairment of surplus account.*—If the board of directors determines that the surplus account of the bank is impaired, the remaining net earnings would be used to restore the amount of such impairment.

3. *Creation and maintenance of reserve account.*—After restoration of any impairment of capital stock, participation certificates, and surplus account, 25 percent of any remaining net earnings would be used to create and maintain a reserve account equal to 25 percent of the outstanding capital stock and participation certificates of the bank. However, if at the end of any fiscal year the sum of the surplus and the reserve account is less than the bank's outstanding capital stock and participation certificates, the bank would continue to apply such 25 percent of earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Amounts carried to the reserve account would not be allocated but would be retained as a protection against losses, thereby adding strength to the capital structure of the bank.

4. *Franchise tax.*—If during all or any part of its fiscal year the Governor held stock in a bank, the bank, after making the required transfer to the reserve account, would pay a franchise tax to the United States equal to 25 percent of its net earnings then remaining, but not exceeding a rate of return on the Government's investment

in the bank calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the Treasury ending next before such tax is due. The tax would be due on the last day of the bank's fiscal year and the applicable rate of interest would be the rate for the last preceding full fiscal year of the Treasury.

5. *Dividends on class B stock and participation certificates.*—When the bank has no class A stock outstanding, net earnings remaining would be available for the payment of dividends on class B stock and participation certificates.

6. *Patronage refunds.*—The balance of any net earnings remaining after application as explained above would be distributed as patronage refunds. When the bank has class A stock outstanding, patronage refunds would be paid in class B stock to production credit associations and in participation certificates to other financing institutions patronizing the bank. After all class A stock is retired, the bank could pay patronage refunds in such class B stock and participation certificates or in cash as determined by the bank. The recipients of patronage refunds in the form of class B stock and participation certificates, made when the bank at the end of its fiscal year has class A stock outstanding, would not be subject to Federal income taxes on such refunds. Such tax exemption would not apply when the bank has no class A stock outstanding. All such refunds would be paid in the proportion that the amount of interest earned by the bank on the loans to and discounts for each patron bears to the total interest earned by the bank on all loans and discounts outstanding during the fiscal year. Participation certificates would be issued in multiples of \$5 and would state on their face the rights, privileges, and conditions applicable thereto. Patronage refunds would not be paid to any other Federal intermediate credit bank, or any bank for cooperatives or Federal land bank.

7. *Disposition of losses.*—A net loss in any fiscal year would be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation; third, charges to surplus transferred from the production credit corporation; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

On the effective date of the bill, each bank would also be required to establish a surplus account consisting of its earned surplus, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. This surplus would not be allocated and it could not be distributed as patronage refunds. Instead, it would remain as a part of the permanent capital structure of the bank. It would, however, be available to absorb losses, as indicated above.

Section 103 also provides for the distribution of assets upon liquidation or dissolution of a bank. In that event, all liabilities would first be paid or payment thereof provided for. Next, all class A stock would be retired at par, and then all class B stock and participation certificates would be retired at par or face amount, as the case may be. Any remaining assets would be distributed as follows: First, any surplus established on the effective date of the legislation, as provided in section 103 (except that transferred from the production credit corporation of the district), which the Farm Credit Administration determines was contributed by financing institutions, other than production credit associations, doing business with the bank on the

effective date of the legislation would be paid to such institutions, or their successors, and the balance of such surplus (including that transferred from the production credit corporation of the district) would be paid to the holders of class A stock and class B stock pro rata; and second, any residual assets would be distributed to the holders of class B stock and the holders of participation certificates pro rata.

Discounts and loans (sec. 104)

Under present law, the banks may make loans to production credit associations upon security approved by the Governor, such as Government bonds, but loans to other financing institutions may be made only on the security of paper eligible for discount by the bank. Section 104 (b) of the bill would amend section 202 (a) of the Federal Farm Loan Act to authorize the credit banks to make loans and advances to both production credit associations and other financing institutions on the security of collateral approved by the Governor. However, under the language of the bill, any loan to such other financing institution could be made only to enable such institution to make or carry loans for any agricultural purpose. The amendment also restates the rediscounting and lending authority of the credit banks, and the banks would continue, as heretofore, to serve both production credit associations and other financing institutions in the continental United States and in Alaska, Puerto Rico, and Hawaii.

Section 104 (b) of the bill also would repeal the authority of the credit banks to make direct loans to farmers' cooperative associations, except to enable such associations to make loans to farmers and ranchers for agricultural purposes. This change would eliminate duplication of lending functions of the credit banks and the banks for cooperatives. This section would also permit one credit bank to make loans (by discount or otherwise) to another such bank or to any land bank or bank for cooperatives, upon terms and at interest rates approved by the Farm Credit Administration.

Section 104 (c) of the bill would permit the credit banks to make loans, advances and discounts with maturities at the time they are made or discounted of not more than 5 years. The limit under present law is 3 years.

Discount rates.—Section 104 (d) of the bill would repeal the present provision of law which relates discount and interest rates to the interest rate borne by the last preceding issue of credit bank debentures. Instead each bank would be authorized to determine the discount and interest rates to be charged on its discounts and loans, subject to the approval of the Farm Credit Administration. Rates charged financing institutions of the kind described in section 202 (a) (2) of the Federal Farm Loan Act, as amended by section 104 (b) of the bill, would be the same as those charged the production credit associations.

Section 104 (e) of the bill would authorize the Federal land banks to make loans to Federal intermediate credit banks or to banks for cooperatives upon terms approved by the Farm Credit Administration. Section 104 (f) of the bill would specifically extend to "other similar obligations" the authority of the Federal intermediate credit banks to issue consolidated debentures. This would clarify the authority of the banks to issue consolidated short-term notes or bills.

Amendments to the Farm Credit Act of 1933 (sec. 105)

The production credit corporations were organized and chartered under the Farm Credit Act of 1933. Section 105 of the bill contains a number of amendments to the 1933 act which would repeal provisions of that act as they apply to the corporations.

Section 105 (a) of the bill would repeal the authority of the Governor to organize and charter production credit corporations; section 105 (b) would repeal the provision relating to charters and bylaws insofar as it applies to production credit corporations; and section 105 (c) would repeal the section relating to the capital stock of the production credit corporations.

Section 105 (d) would amend section 5 of the 1933 act to reduce to \$60 million the revolving fund which under the bill would be available for the purchase by the Governor of stock in production credit associations. This revolving fund was originally \$120 million but \$30 million thereof was returned in 1949 to miscellaneous receipts of the Treasury. This section would also increase from \$40 million to \$70 million the revolving fund out of which the Governor is authorized, with the approval of the Secretary of the Treasury, to purchase capital stock of the credit banks.

Section 105 (e) would amend section 6 of the 1933 act to authorize the Governor of the Farm Credit Administration to purchase class A stock in production credit associations. This authority is now vested in the production credit corporations. This transfer of authority from the corporations to the Governor would not change the status of production credit associations insofar as concerns laws relating generally to corporations partially owned or controlled by the Government. Payments for such stock purchased by the Governor would be made out of the \$60 million revolving fund authorized by section 5 (a) of the 1933 act as amended by section 105 (d) of the bill, and the proceeds of retirements of any such class A stock would be paid into such revolving fund.

Section 105 (f) of the bill would repeal the requirement that a production credit association furnish the production credit corporation of the district with a copy of its articles of incorporation; section 105 (g) would substitute the Governor for the production credit corporation as the proper holder of stock of a production credit association and repeal the authority of the president of the production credit corporation as to approval and removal of association officers and directors, matters which could properly be provided for in bylaws approved by the Governor; section 105 (h) would substitute the credit bank for the production credit corporation as the institution to approve the minimum surplus account of the production credit association and the payment of dividends by a production credit association; section 105 (i) would provide that rules and regulations governing the terms and conditions of loans by production credit associations shall be prescribed by the district farm credit board with the approval of the Farm Credit Administration, authorize production credit associations to make loans to farmers for general agricultural purposes and their other requirements, and vest authority in the credit bank to approve certain "excess" production credit association loans (an authority now vested in the production credit corporation); sections 105 (j) and 105 (k) would authorize any bank for cooperatives to make loans to a land bank or intermediate credit bank upon terms approved by the Farm Credit Administration; section 105 (l) would remove the production credit corporations from the provisions setting forth the general powers of certain farm credit institutions; section 105 (m) would remove the production credit corporations from the provision relating to examinations by examiners designated by the Governor; section 105 (n) would remove the production credit corporations from the provision designating certain farm credit institutions as fiscal agents of the United States; section 105 (o) would remove the production

credit corporations from the provisions exempting farm credit institutions from certain taxes; section 105 (p) would remove the production credit corporations from the provision relating to liquidation of farm credit institutions; and section 105 (q) would repeal the authority of the production credit associations to make loans to farmers for home alterations, repairs, and improvements without the purchase of class B stock in the associations.

Amendments to the Farm Credit Act of 1937 (sec. 106)

Section 106 of the bill contains technical amendments to the 1937 act required by reason of the merger of production credit corporations in the Federal intermediate credit banks. For example, section 106 (a) would substitute the Governor for the production credit corporation in a provision which refers to stock of the production credit associations held by the production credit corporation. Also, by way of example, section 106 (b) would remove the production credit corporations from the provision which authorizes the district institutions to employ joint officers and employees.

Amendments to the Farm Credit Act of 1953 (sec. 107)

Section 107 of the bill contains technical amendments to the 1953 act required by reason of the merger of the corporations in the banks. Section 107 (a) substitutes the credit bank for the production credit corporation as the institution to which the Governor is directed to delegate, under certain circumstances, his responsibilities for supervision of the production credit associations. Section 107 (b) substitutes the Governor for the production credit corporation as the proper person to authorize the issuance of class C stock by a production credit association and directs that payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of the 1933 act, as amended.

Other amendments (sec. 108)

Section 108 of the bill would amend the Department of Agriculture Organic Act of 1944 by deleting the production credit corporations from those provisions authorizing assessments of the district institutions for expenses of the Farm Credit Administration.

Section 109 of the bill would amend two sections of the Criminal Code to delete the language "or in which a production credit corporation holds stock." The Farm Credit Act of 1933 authorized the production credit corporation to subscribe and pay for stock in a production credit association not organized under that act if such association was controlled by a farmers' cooperative association. No production credit corporation has ever held stock in any such production credit association. This authority in the 1933 act is repealed by the bill and it is appropriate to delete the reference in the Criminal Code to any such production credit association.

TITLE II—MISCELLANEOUS PROVISIONS

Designation of credit banks as mixed-ownership Government corporations (Sec. 201)

Section 201 (a) of the bill would remove the production credit corporations from the provisions of the Government Corporation Control Act. This section would also redefine the Federal intermediate credit banks as "mixed-ownership" Government corporations

instead of wholly owned Government corporations. Titles II and III relating primarily to audit by the General Accounting Office would continue to apply to the banks. Section 201 (b) of the bill would authorize the banks, after the effective date of the bill, to use their funds for administrative expenses without regard to the provisions of any other act of Congress governing the expenditure of appropriated funds. Section 201 (c) would amend the National Bank Act to remove the present limitation on national banks investing in debentures issued by the banks for cooperatives. A national bank is now prohibited from investing in such securities an amount exceeding 10 percent of its capital stock actually paid in and unimpaired and 10 percent of its unimpaired surplus. This limitation is not applicable to bonds issued by the Federal land banks or to debentures issued by the intermediate credit banks, and the proposed amendment would place all such farm credit securities on the same basis insofar as their purchase by the national banks is concerned.

Section 202 would provide an effective date of January 1 next following the enactment of the bill. This section would also define, for the purpose stated, the 6 months preceding such effective date as a separate "fiscal year."

Section 203 of the bill contains the usual separability provision and reserves the right to alter, amend, or repeal the enacted bill.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

ACT OF JULY 17, 1916

AN ACT To provide capital for agricultural development, to create standard forms of investment based upon farm mortgage, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be "The Federal Farm Loan Act."

SEC. 13.

Seventeenth. To make loans to other Federal land banks, to *Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,* upon such terms and conditions as may be approved by the Farm Credit Administration.

SEC. 201.

(b) One such institution shall be established in each farm credit district in the same city as the Federal land bank of the district. The

members of the several farm credit boards of the farm credit districts provided for in the Farm Credit Act of 1937 shall be ex officio the directors of the several Federal intermediate credit banks herein provided for and shall have power, subject to the approval of the Farm Credit Administration, to employ and fix the compensation of such officers and employees of such Federal intermediate credit banks as may be necessary to carry on the business authorized by this title. *The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks.*

* * * * *

【SEC. 202. (a) That Federal Intermediate Credit Banks, when chartered and established, shall have power, subject solely to such restrictions, limitations, and conditions as may be imposed by the Farm Credit Administration not inconsistent with the provisions of this Act—

【(1) To discount for, or purchase from, any national bank, and/or any State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, cooperative bank, credit union, cooperative association of agricultural producers, organized under the laws of any State or of the Government of the United States, and/or any other Federal Intermediate Credit Bank, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose or for the raising, breeding, fattening, or marketing of livestock; and to make loans or advances direct to any such organization, secured by such obligations; and to discount for, or purchase from, any production credit association or bank for cooperatives organized under the Farm Credit Act of 1933, or any production credit association in which a Production Credit Corporation organized under such Act holds stock, with its indorsement, any note, draft, bill of exchange, debenture, or other such obligation presented by such association or bank, and to make loans and advances direct to any such association or bank secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

【(2) To buy or sell, with or without recourse, debentures issued by any other Federal intermediate credit bank; and

【(3) To make loans or advances direct to any cooperative association organized under the laws of any State and composed of persons engaged in producing, or producing and marketing, staple agricultural products, or livestock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on livestock, and/or such other collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance, when secured only by warehouse receipts and/or shipping documents, and/or mortgages on livestock, shall exceed 75 per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the livestock covered by said mortgages; and to accept drafts or bills of exchange issued or drawn by any such association when secured by warehouse receipts

and/or shipping documents covering staple agricultural products as herein provided, at such rates of commission as may be approved by the Governor of the Farm Credit Administration.】

SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: Provided, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration.

* * * * *

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal intermediate credit bank of not more than [three] five years. Any Federal intermediate credit bank may in its discretion sell loans or discounts made under this section, with or without its endorsement.

SEC. 203. (a) Federal intermediate credit banks shall have power, subject to the approval of the Farm Credit Administration, to borrow money and to issue and to sell collateral trust debentures or other similar obligations with a maturity at the time of issue of not more than five years, which shall be secured by at least a like face amount of cash, United States Government bonds, Federal Farm Mortgage Corporation bonds, or notes or other such obligations discounted or purchased or representing loans made under section 202: Provided, That the aggregate amount of the outstanding debentures and similar obligations issued individually by any Federal intermediate credit bank, together with the amount of outstanding consolidated debentures

tures or other similar obligations issued for its benefit and account, shall not exceed ten times the surplus and paid-in capital of such bank.

* * * * *

(d) Whenever it shall appear desirable to issue consolidated debentures or other similar obligations of the twelve Federal intermediate credit banks and to sell them through a common selling agency, and the Federal intermediate credit banks shall, by resolutions, consent to the same, the banks may issue and sell said debentures or other similar obligations subject to the provisions of this section and the provisions of section 21 of Title I of this Act, insofar as applicable. As used in this Act, the term "debentures" includes such consolidated debentures.

(e) All debentures or other similar obligations issued by Federal intermediate credit banks shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or of any officer or officers thereof.

[SEC. 204. (a) Any Federal intermediate credit bank may, with the approval of the Farm Credit Administration, from time to time establish rates of discount and interest which, except with the approval of the Governor of the Farm Credit Administration, shall not exceed by more than 1 per centum per annum the rate borne by the last preceding issue of debentures which it issued or in which it participated. Any Federal intermediate credit bank may be required by the Governor of the Farm Credit Administration to acquire, upon such terms as he may approve, loans and/or discounts of any other Federal intermediate credit bank.]

SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations.

* * * * *

[SEC. 205. That for the purpose of exercising the powers conferred by this title, each Federal Intermediate Credit Bank shall have a subscribed capital stock of \$5,000,000, which amount may be increased from time to time with the approval of the Governor of the Farm Credit Administration. Capital stock of such amount shall be divided into shares of \$5 each and shall be subscribed, held, and paid by the Government of the United States. It shall be the duty of the Secretary of the Treasury to subscribe to such capital stock on behalf of the United States, such subscription to be subject to call in whole or in part by directors of the said banks upon 30 days' notice to the Secretary of the Treasury and with the approval of the Farm Credit Administration. The Secretary of the Treasury is authorized and directed to take out shares as called and to pay for the same out of any money in the Treasury not otherwise appropriated. In the event that there shall be an impairment of the paid-in capital of any Federal intermediate credit bank, the Farm Credit Administration, at such time or times as it deems advisable, may determine and assess the amount thereof against the other Federal intermediate credit banks on such equitable basis of apportionment as it shall prescribe. Each bank against which such an assessment is made shall, out of its surplus and/or to an extent up to 50 per centum of

its net earnings, in accordance with the terms of such assessment, pay the amount thereof as soon as possible to the bank having the impairment. In such event payments into the surplus fund and payments of the franchise tax prescribed by this chapter shall be determined on the basis of the net earnings remaining after providing for the payment of any such assessment. With the approval of the Secretary of the Treasury, the Governor of the Farm Credit Administration is hereby authorized to subscribe from time to time to the capital stock and/or paid-in surplus of any Federal Intermediate Credit Bank on behalf of the United States, in such amounts as he may determine are necessary for the purpose of meeting the credit needs of eligible borrowers from the bank, and the amount of the capital stock and paid-in surplus of such bank may be increased or decreased from time to time by the Governor, in accordance with such needs. Such stock shall be divided into shares of \$100 each and subscriptions to such paid-in surplus shall be made in multiples of \$100 out of the revolving fund created under subsection (e) of section 5 of the Farm Credit Act of 1933, as amended. The Governor on behalf of the United States shall make payment for stock and paid-in surplus of such bank and such payment shall be subject to call in whole or in part by the board of directors of the bank, with the approval of the Governor.]

CAPITAL STOCK

SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of all Federal intermediate credit banks held by the Secretary of the Treasury shall be transferred to the Governor and may be reallocated by him in such manner as he determines necessary to meet the needs of the respective banks. The Governor shall then exchange such stock of each bank for an equal par amount of class A stock of the bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to \$30,000,000 plus the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm

Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

(2) *Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that is average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: Provided, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation*

certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

(b) **LIEN ON STOCK AND PARTICIPATION CERTIFICATES.**—*Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank: Provided, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt.*

[SEC. 206. (a) That the Farm Credit Administration shall equitably apportion the joint salaries and expenses incurred in behalf of the Federal land banks, joint-stock land banks, and Federal intermediate credit banks, and shall assess against each Federal intermediate credit bank its proportionate share of the salaries and expenses of the Farm Credit Administration made necessary in connection with the operation of this provision.

[(b) Subject only to review and approval by the Farm Credit Administration, each Federal intermediate credit bank, at the end of its fiscal year, after all its necessary expenses and costs of operation for such fiscal year have been paid or provided for, shall apply its net earnings then remaining, first, to making up any losses in excess of its reserves against unforeseen losses and assets of doubtful value; second, to the elimination of any impairment of its paid-in capital and paid-in surplus; third, to the creation and maintenance of reserves against unforeseen losses and assets of doubtful value in such amount as its board of directors may prescribe; fourth, to the payment of 25 per centum of the amount then remaining to the United States as a franchise tax; and, fifth, to the payment of the remaining net earnings into its surplus account. The amounts paid as franchise taxes to the United States by Federal intermediate credit banks shall, in the discretion of the Secretary of the Treasury, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury. Should a Federal intermediate credit bank be dissolved or go into liquidation, after the payment of all debts and other obligations as hereinbefore provided, any surplus remaining shall be paid to and become the property of the United States and shall be similarly applied.]

APPLICATION OF EARNINGS

SEC. 206. (a) **ANNUAL APPLICATION.**—*At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to*

the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds or as dividends. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

(b) **PATRONAGE REFUNDS.**—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions appli-

cable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for co-operatives.

(c) *DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, rediscounting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of its organization to the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata.*

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ACT OF JUNE 16, 1933

AN ACT To provide for organizations within the Farm Credit Administration to make loans for the production and marketing of agricultural products, to amend the Federal Farm Loan Act, to amend the Agricultural Marketing Act, to provide a market for obligations of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I

SECTION 1. This Act shall be known as the "Farm Credit Act of 1933."

* * * * *

[ESTABLISHMENT OF PRODUCTION CREDIT CORPORATIONS AND BANKS FOR COOPERATIVES

[SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the "governor", is authorized and directed to organize and charter twelve corporations to be known as "Production Credit Corporations" and twelve banks to be known as "Banks for Cooperatives." One such corporation and one such bank shall be established in each farm credit district in the city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in the

Farm Credit Act of 1937 shall be ex officio the directors of the respective production credit corporations and banks for cooperatives. Such directors shall have power, subject to the approval of the governor, to employ and fix the compensation of such officers and employees of such corporations and banks as may be necessary to carry out the powers and duties conferred upon such corporations and banks under this Act.】

SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the "Governor", is authorized and directed to organize and charter twelve banks to be known as "banks for cooperatives". One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act.

SEC. 3. The charters of 【the Production Credit Corporations and】 the Banks for Cooperatives shall be granted by the governor upon application of the directors of the Federal land bank of the proper district, and applications and charters shall be in such form as the governor shall prescribe. The directors shall have power, subject to the approval of the governor, to adopt such bylaws as may be necessary for the conduct of the business of the 【corporations and】banks.

【CAPITAL OF PRODUCTION CREDIT CORPORATIONS

【SEC. 4. The capital stock of each Production Credit Corporation shall be in such amount as the governor determines is required for the purpose of meeting the credit needs of the district to be served by such corporation, and such amount may be increased or decreased from time to time by the governor in accordance with such credit needs. Such capital stock shall be divided into shares of \$100 each. The initial capital stock of each such corporation shall be \$7,500,000, which shall be subscribed for by the governor and held by him on behalf of the United States. Payments on subscriptions to stock by the governor shall be subject to call in whole or in part by the board of directors of the corporation with the approval of the governor. The governor shall make such payments out of the revolving fund created in section 5. The stock ownership of the United States in such corporation shall be evidenced by such means as the governor shall determine.】

SEC. 5. (a) There is hereby created a revolving fund of not to exceed 【\$120,000,000】 \$60,000,000 which shall be made up as follows:

* * * * *

(b) There is hereby authorized to be appropriated the sum of \$2,000,000, which shall remain available until expended, for all necessary administrative expenses in connection with the establishment and supervision of 【the Production Credit Corporations and】 the Production Credit Associations.

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(e) The amount of all balances, collections, and appropriations allocated under subsection (a) to the revolving fund created there-

under, which is in excess of \$120,000,000, is hereby made available to the Governor of the Farm Credit Administration for the establishment of a revolving fund of not to exceed **[\$40,000,000]** *\$70,000,000*. Out of such revolving fund, the Governor is authorized to allocate and, with the approval of the Secretary of the Treasury, to expend such amounts as he deems necessary for subscriptions to the capital stock **[and/or paid-in surplus]** of Federal Intermediate Credit Banks.

**[STOCK OWNERSHIP OF PRODUCTION CREDIT CORPORATIONS IN
PRODUCTION CREDIT ASSOCIATIONS]**

[SEC. 6. (a)] Each Production Credit Corporation shall have power to invest its funds in stock of production credit associations as provided in this section. Such corporation is authorized to subscribe and pay for class A stock in each Production Credit Association located in the district served by such corporation in amounts sufficient to maintain the amount of class A stock held by it and other holders of class A stock equal, as nearly as may be, to 20 per centum of the volume of loans made or to be made by such association, as estimated by the corporation, but at no time shall the amount of class A stock outstanding be less than \$5,000 except with the consent of the association. Notwithstanding the provisions of the preceding sentence, (1) the governor, under rules and regulations prescribed by him, may permit a Production Credit Corporation to maintain the class A holdings of stock by the corporation and other investors at such amount, in excess of 20 per centum of such loans, as may be necessary, and (2) the corporation may at any time require the association to retire and cancel stock held by the corporation in such association, if, in the judgment of the corporation, the association has resources available therefor.

[(b)] Under such rules and regulations as may be prescribed by the governor and subject to such restrictions and limitations as he may prescribe, each Production Credit Corporation is authorized to subscribe and pay for stock in production credit associations not organized under this Act if such associations are controlled by cooperative associations as defined in section 55. Only stock which is preferred as to assets on liquidation and is entitled to participate in dividend distributions without discrimination may be subscribed for. The amount of the stock subscribed for by any Production Credit Corporation in any such association shall not at any one time exceed 75 per centum of the total paid-in capital of such association.

[(c)] The amount of the excess of earnings on stock held by the corporation above amounts necessary to pay operating expenses and restore losses and impairment of capital, if any, of the corporation shall be devoted to the creation and maintenance of a surplus equal to at least 25 per centum of the paid-in capital of the corporation. The amount of the surplus shall be invested as the governor shall prescribe in direct obligations of the United States or in class A stock of Production Credit Associations, or both.

[(d)] The amount of such excess of earnings not required in order to comply with the provisions of subsection (c) shall be paid into the revolving fund heretofore authorized. Stock held by the governor in the Production Credit Corporation shall be retired upon such payment in an amount equal to the amount of such payment.

[(e) Each production credit corporation shall, at the end of each fiscal year (1) apply its earnings described in subsection (c) of this section in accordance with the provisions of subsections (c) and (d) of this section; and (2) apply its earnings from all other sources, first, to the payment of any operating expenses for the year remaining unpaid; second, to restore losses and impairment of capital, if any, of the corporation; third, to the creation and maintenance of a surplus equal to 25 per centum of the paid-in capital of the corporation; fourth, to the payment of 25 per centum of its earnings from all sources then remaining to the United States as a franchise tax, and fifth, to the payment of the remaining earnings into its surplus account.]

INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid such revolving fund.

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SEC. 20. The governor is authorized and directed to organize and charter corporations to be known as "Production Credit Associations." Such associations may be organized by ten or more farmers desiring to borrow money under the provisions of this title. Such individuals shall enter into articles of incorporation which shall specify in general terms the objects for which the association is formed and the powers to be exercised by it in carrying out the functions conferred upon it by this Act. [Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be forwarded to the Production Credit Corporation of the district, and such copy shall be filed and preserved in its office.] *Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor.* The governor may, for good cause shown, deny a charter to such individuals. Upon the approval of such articles by the governor, the association shall become as of the date of such approval a body corporate. The governor shall have power, under rules and regulations prescribed by him, or by prescribing the terms of the charter of the association, or both, to provide for the organization, management, and conduct of the business of the association; and the power of the governor shall extend to prescribing the amount of the stock of such association; fixing the territory within which its operations may be carried on; fixing the method of election and appointment of, and the amount and payment of the compensation of, directors, officers, and employees; fixing the maximum amount of individual loans which may be made; prescribing the conditions under which the stock may be retired; and providing for the consolidation of two or more such associations. The governor may, at any time, direct such changes in the charter of any such association as he finds necessary in accomplishing the purposes of this title. Bylaws of any

such association may be adopted by the directors but shall not be valid unless approved by the governor.

SEC. 21. The stock of such associations shall be divided into shares of \$5 each; and there shall be two classes of such stock: (1) Class A stock which is to be held by [Production Credit Corporations] *the Governor*, and which may be purchased and held by investors, and (2) class B stock which may be purchased only by farmer borrowers from the association and individuals eligible to become borrowers. Class B stock only shall be entitled to voting rights but each holder of such stock shall be entitled to no more than one vote. No class B stock, or any interest therein or right to receive dividends thereon, shall be transferred by act of parties or operation of law except to another farmer borrower or an individual eligible to become a borrower and then only with the approval of the directors of the association. Each holder of class B stock, within two years after he has ceased to be a borrower, shall exchange such class B stock at the fair book value (not to exceed par) thereof, as determined by the association, for class A stock. Dividends may be paid on class A and class B stock without preference or on class A stock alone, as the board of directors of the association may determine, but the directors of the association may, in their discretion, apply the amount of any dividend payable to a holder of class B stock to any indebtedness of such holder to the association. Class A stock shall be preferred as to assets of the association upon liquidation. [During such time as any Production Credit Corporation is a holder of any stock of any such association, the appointment or election of directors, the secretary-treasurer, and the loan committee of such association shall be subject to the approval of the president of the Production Credit Corporation and during such time any such director, secretary-treasurer, or other officer may, at any time, be removed by the president of the Production Credit Corporation.]

SEC. 22. (a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings in excess of operating expenses (including provision for reasonable valuation reserves) during such fiscal year, first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the [production credit corporation] *Federal intermediate credit bank*.

(b) A production credit association may pay dividends of not to exceed 7 per centum per annum when such payments are approved by the [production credit corporation] *Federal intermediate credit bank* of the district and are consistent with policies established under regulations issued by the Farm Credit Administration.

SEC. 23. [Each production credit association shall, under such rules and regulations as may be prescribed by the production credit corporation of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes.] *Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers.* [Such loans shall be made on such terms and conditions, at such rates of interest, and with such security as may be prescribed by the corporation.] No

borrower shall be indebted to the association at any one time in an amount in excess of 15 per centum of the capital and surplus of the association unless the loan has the prior approval of the [corporation] *Federal intermediate credit bank*, or in excess of 35 per centum of the capital and surplus of the association unless the loan also has the prior approval of the Farm Credit Administration. Borrowers shall be required to own, at the time the loan is made, class B stock of the association in an amount equal in fair book value (not to exceed par), as determined by the association, to \$5 per \$100 or fraction thereof of the amount of the loan. Such stock shall not be canceled or retired upon payment of the loan but may be transferred or exchanged as provided in section 21 of this Act.

* * * * *

SEC. 34. Subject to such terms and conditions as may be prescribed by the Farm Credit Administration, the Central Bank is authorized: (a) to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended, for any of the purposes and subject to the conditions and limitations set forth in such Act, as amended; (b) to make loans (by way of discount or otherwise) to banks for cooperatives organized under section 2 of this Act *or to Federal land banks or Federal intermediate credit banks*; (c) to buy from, and sell to, any such bank or any Federal intermediate credit bank any note, draft, bill of exchange, debenture, or other obligation, or any interest therein; and (d) to borrow from, and discount or rediscount paper with, any and all such banks and commercial banks.

* * * * *

SEC. 41. Subject to such terms and conditions as may be prescribed by the Farm Credit Administration, the banks for cooperatives are authorized (a) to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended, for any of the purposes and subject to the conditions and limitations set forth in such Act, as amended; (b) to make loans (by way of discount or otherwise) to any bank organized under this Act *or to Federal land banks or Federal intermediate credit banks*; (c) to buy from, and sell to, any such bank or any Federal intermediate credit bank any note, draft, bill of exchange, debenture, or other obligation, or any interest therein; and (d) to borrow from, and discount or rediscount paper with, any and all such banks and commercial banks.

* * * * *

SEC. 60. The Central Bank for Cooperatives, and [the Production Credit Corporations,] the Production Credit Associations, and the Banks for Cooperatives, organized under this Act, shall have succession, until dissolved in accordance with this or any other Act of Congress; shall have power to sue and be sued in any court, to adopt and use a corporate seal, to make contracts, to acquire, hold, and dispose of real and personal property necessary and incident to the conduct of their business, to prescribe fees and charges (which in any case shall be subject to the rules and regulations prescribed by the governor) for loans and other services; and shall have such other powers necessary and incident to carrying out their powers and duties under this or any other Act of Congress as may be provided by the governor in their charters or in any amendments thereto. Each such bank, [association, or corporation] *or association* shall, for the purposes of jurisdic-

tion, be deemed a citizen of the State or District within which its principal office is located. No district court of the United States shall have jurisdiction of any action or suit by or against any [Production Credit Corporation or] Production Credit Association upon the ground that it was incorporated under this Act or that the United States owns a majority of the stock in it, nor shall any district court of the United States within the farm credit district served by such association [or corporation] have jurisdiction by removal or otherwise of any suit by or against any such association [or corporation] except in cases by or against the United States or by or against any officer of the United States and except in cases by or against any receiver of any such [corporation or] association appointed in accordance with section 65.

SEC. 61. At least once each year and at such other times as the governor deems necessary, the Central Bank for Cooperatives, and each [Production Credit Corporation,] Production Credit Association, and Bank for Cooperatives, organized under this Act, shall be examined by examiners designated by the governor. The governor shall assess the cost of such examinations against the bank, [association, or corporation] or *association* examined, which shall pay such costs to the governor. The amounts so assessed and unpaid shall be a prior lien on all assets of the bank, [association, or corporation] or *association* examined except on assets pledged to secure loans.

SEC. 62. The Central Bank for Cooperatives, the [Production Credit Corporations,] Production Credit Associations, the Federal Farm Mortgage Corporation, and Banks for Cooperatives, organized under this Act, when designated for that purpose by the Secretary of the Treasury, shall act as fiscal agents of the United States Government and when acting as such shall perform such duties as shall be prescribed by the Secretary of the Treasury.

SEC. 63. The Central Bank for Cooperatives, and [the Production Credit Corporations,] Production Credit Associations, and Banks for Cooperatives, organized under this Act, and their obligations, shall be deemed to be instrumentalities of the United States, and as such, any and all notes, debentures, bonds, and other such obligations issued by such banks, [associations, or corporations] or *associations* shall be exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority. Such banks, [associations, and corporations,] and *associations*, their property, their franchises, capital, reserves, surplus, and other funds, and their income, shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that any real property and any tangible personal property of such banks, [associations, and corporations] and *associations*, shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed. [The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the production credit corporation has been retired, or with respect to the Central Bank for Cooperatives, or any production credit corporation or bank for cooperatives, or its property or income after the stock held in it by the United States has been retired.] *The exemption provided herein shall*

not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired.

SEC. 65. Upon default of any obligation of any [Production Credit Corporation,] Production Credit Association, or Bank for Cooperatives, such bank, [association, or corporation] *or association* may be declared insolvent and placed in the hands of a receiver by the governor and proceedings shall thereupon be had in accordance with the provisions of law relating to the insolvency of national farm-loan associations. Any such bank, [association, or corporation] *or association* may, with the consent of the governor, liquidate voluntarily, but only in accordance with such rules and regulations as the governor may prescribe.

* * * * *

[SEC. 86a. With the approval of the Governor of the Farm Credit Administration and under rules and regulations to be prescribed by the Production Credit Commissioner, production credit associations organized under the provisions of the Farm Credit Act of 1933 are authorized and empowered (without regard to the provisions of this Act relating to the requirement for the ownership of Class B stock or any other limitations therein contained) (1) to make loans to farmers for the purpose of enabling them to make home alterations, repairs, and improvements, (2) to sell, discount, assign, or otherwise dispose of any loans made by them under the provisions of this section, under such restrictions and limitations as to endorsement and liability as may be approved by the Governor of the Farm Credit Administration, (3) to avail themselves of the benefits of insurance under the provisions of section 2 of the National Housing Act, and (4) to do all such things as may be reasonably necessary to carry out the provisions of this section.]

* * * * *

ACT OF AUGUST 19, 1937

AN ACT To amend the Federal Farm Loan Act, to amend the Emergency Farm Mortgage Act of 1933, to amend the Farm Credit Act of 1933, to amend the Federal Farm Mortgage Corporation Act, to amend the Agricultural Marketing Act, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1937".

* * * * *

SEC. 5. * * *

* * * * *

(d) * * *

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(2) Notwithstanding the above provision with respect to the appointment of district directors, one additional member of said board shall be elected by each of the groups aforesaid (national farm loan associations and borrowers through agencies, production credit

associations, and cooperatives which are stockholders or subscribers to the guaranty fund of the regional bank for cooperatives of the district), and serve in lieu of a district director, under the following circumstances and conditions:

* * * * *

(B) Whenever, as determined by the Farm Credit Administration, the sum of the capital stock held by persons other than the [production credit corporation of the district] *Governor of the Farm Credit Administration*, surplus, and reserves of the production credit associations (collectively) of a farm credit district shall equal or exceed 66½ per centum of the total of the capital stock, surplus, and reserves of the production credit associations (collectively) of said district as of the date six months before the expiration of the term of office of the district director (or third district director) whose term next expires, the successor to such director shall be elected by the production credit associations of the district in the manner herein provided, shall be known as an elected director, and successors to that office shall be so elected and known from term to term while such conditions obtain: *Provided, That, if and when, as determined by the Farm Credit Administration, such conditions do not obtain as of the date six months before the expiration of the term of office of any director so elected under the provisions of this subparagraph, the successor to such director shall be appointed by the Governor of the Farm Credit Administration by and with the advice and consent of the Federal Farm Credit Board, shall be known as a district director, and successors to that office shall be so appointed and known from term to term for such terms as appointment is not precluded by the election of an additional director by one of the groups aforesaid as herein provided: And provided further, That such production credit associations shall again and from time to time elect one additional director as aforesaid, if and when the required conditions named in this subparagraph shall be determined to obtain as aforesaid.*

* * * * *

(h) Members of each farm credit board shall have been, for at least two years, residents of the district for which they are appointed or elected. From and after the date of enactment of this Act, no person shall be eligible for election or appointment as a member of any district farm credit board, and no person hereafter elected or appointed as a member of any district farm credit board shall be eligible to continue to serve as such, if in either case said person is an officer or employee of any Federal land bank, Federal intermediate credit bank, [production credit corporation,] or bank for cooperatives. No district director, excepting any third district director selected as hereinabove specified, shall, during his continuance in office, be a director, officer, or employee of any institution, association, or partnership engaged in the business of lending money or of making or selling land mortgage loans, except an institution or association under the supervision of the Farm Credit Administration.

* * * * *

SEC. 6. Each farm credit board provided for in this Act shall have power, subject to the approval of the Farm Credit Administration—

(a) To employ joint officers and employees for the Federal land bank, Federal intermediate credit bank, [production credit corporation,] and regional bank for cooperatives in its district. The salaries or other compensation of all such joint officers and employees shall be fixed by the district farm credit board and shall be paid by the Federal land bank of the district. Such bank shall be reimbursed therefor by the other [three] institutions in the district, in such amounts and upon such conditions as the board shall determine. Officers and employees appointed by the district farm credit board shall be officers and employees of the district institutions served by them.

(b) To authorize the acquisition and disposal of such property, real or personal, as may be necessary or convenient for the transaction of the business of the Federal land bank, the Federal intermediate credit bank, [the bank for cooperatives, and the production credit corporation] and the bank for cooperatives, located in its district, upon such terms and conditions as it shall fix, and to prorate among such institutions the cost of purchases, rentals, construction, repairs, alterations, maintenance, and operation, in such amounts and in such manner as it shall determine. Any lease, or any contract for the purchase or sale of property, or any deed or conveyance of property, or any contract for the construction, repair, or alteration of buildings, authorized by a district farm credit board under this subsection shall be executed by the officers of the institution or institutions concerned pursuant to the direction of such board. No provision of law relative to the acquisition or disposal of property, real or personal, by or for the United States, or relative to the making of contracts or leases by or for the United States, including the provisions set out in title 40 and title 41 of the United States Code, 1934 edition, and the Supplements thereto, and including provisions applicable to corporations wholly owned by the United States, shall be deemed or held applicable to any lease, purchase, sale, deed, conveyance, or contract authorized or made by a district farm credit board, Federal land bank, Federal intermediate credit bank, [production credit corporation,] or bank for cooperatives under this subsection.

* * * * *

AN ACT To increase farmer participation in ownership and control of the Federal Farm Credit System; to create a Federal Farm Credit Board; to abolish certain offices; to impose a franchise tax upon certain farm credit institutions; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE

SECTION 1. This Act may be cited as the "Farm Credit Act of 1953".

* * * * *

SEC. 8. The Farm Credit Administration is authorized and directed, by order or rules and regulations, to delegate to a Federal land bank such of the duties, powers, and authority of the Farm Credit Administration with respect to and over National Farm Loan Associations, their officers and employees, in the farm credit district wherein such

Federal land bank is located, as may be determined to be in the interest of effective administration; and, in like manner, to delegate to a [production credit corporation] *Federal intermediate credit bank* such of the duties, powers, and authority of the Farm Credit Administration with respect to and over production credit associations, their officers and employees, in the farm credit district wherein such [production credit corporation] *Federal intermediate credit bank* is located, as may be determined to be in the interest of effective administration; and, in either case the duties, powers, and authority so delegated shall be performed and exercised under such conditions and requirements and upon such terms as the Farm Credit Administration may specify. Any Federal land bank or [production credit corporation] *Federal intermediate credit bank* to which any such duties, powers, or authority may be delegated is hereby authorized and empowered to accept, perform, and exercise such duties, powers, and authority as may be so delegated to it.

* * * * *

SEC. 16. [(a) Any other provisions of law to the contrary notwithstanding after the effective date of this Act any production credit association may, with the approval of the President of the Production Credit Corporation and of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by production credit corporations and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Production Credit Corporation) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Production Credit Corporation) and holders of class B stock shall be entitled to one vote for each share of stock held by them.]

(a) *Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: Provided, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund.*

* * * * *

DEPARTMENT OF AGRICULTURE ORGANIC ACT OF 1944 (ACT OF
SEPTEMBER 21, 1944)

AN ACT To provide for the control and eradication of certain animal and plant pests and diseases, to facilitate cooperation with the States in fire control, to provide for the more efficient protection and management of the national forests, to facilitate the carrying out of agricultural conservation and related agricultural programs, to facilitate the operation of the Farm Credit Administration and the Rural Electrification Administration, to aid in the orderly marketing of agricultural commodities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That,

* * * * *

SEC. 601. (a) The Farm Credit Administration shall, prior to the first day of each fiscal year commencing after June 30, 1944, estimate for the ensuing fiscal year the cost of examinations of the Federal land banks, national farm-loan associations, banks for cooperatives, Central Bank for Cooperatives, Federal intermediate credit banks, [production credit corporations,] and production credit associations; shall apportion the amount so determined among the Federal land banks, national farm loan associations, banks for cooperatives, Central Bank for Cooperatives, Federal intermediate credit banks, [production credit corporations,] and production credit associations on such equitable basis as said Administration shall determine; and shall assess against and collect in advance the amount so apportioned from the banks, [corporations,] and other organizations among which the apportionment is made, except that the amounts apportioned to national farm loan associations shall be assessed against and collected from the Federal land bank of the district which may in turn collect such amounts from the associations in a manner approved by the Farm Credit Administration.

(b) The Farm Credit Administration shall, prior to the first day of each fiscal year commencing after June 30, 1944, estimate the cost to it for the ensuing fiscal year of the administrative supervision of the Federal land bank system, the banks for cooperatives, the Central Bank for Cooperatives, the Federal intermediate credit banks, and the production credit system; shall apportion the amount so determined among the Federal land banks, the banks for cooperatives, the Central Bank for Cooperatives, [the Federal intermediate credit banks, and the production credit corporations] and the Federal intermediate credit banks on such equitable basis as said Administration shall determine; and shall assess against and collect in advance from such banks [and corporations] the amount so apportioned.

(c) The amounts collected pursuant to subsections (a) and (b) hereof shall be covered into the Treasury, and credited to a special fund, which fund is hereby authorized to be appropriated to said Administration for expenditure during each fiscal year for salaries and expenses applicable to examination and administrative supervision as set forth in the annual appropriation made for the same fiscal year for salaries and expenses of said Administration. As soon as practicable after the end of each such fiscal year, said Administration shall determine on a fair and reasonable basis (1) the cost of the examination services rendered during the fiscal year to each said bank, [corporation,] or other organization; and (2) the amount which fairly and equitably

should be allocated to each bank [and corporation] as the cost during the fiscal year of such administrative supervision, and if the sum of these two items in any case is greater than the total amount collected from the bank, [corporation,] or other organization, the difference shall be collected from such bank, [corporation,] or other organization, and, if less, shall be refunded from said special fund to the bank, [corporation,] or other organization entitled thereto.

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TITLE 18 OF UNITED STATES CODE

* * * * *

§658. Property mortgaged or pledged to farm credit agencies.

Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts to his own use or to that of another, any property mortgaged or pledged to, or held by, the Farm Credit Administration, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation, the Secretary of Agriculture acting through the Farmers' Home Administration, any production credit association organized under sections 1131-1134m of Title 12, [or in which a Production Credit Corporation holds stock], any regional agricultural credit corporation, or any bank for cooperatives, shall be fined not more than \$5,000 or imprisoned not more than five years, or both; but if the value of such property does not exceed \$100, he shall be fined not more than \$1,000 or imprisoned not more than one year or both.

* * * * *

§ 1014. Loan and credit applications generally; renewals and discounts; crop insurance.

Whoever knowingly makes any false statement or report or willfully overvalues any land, property or security, for the purpose of influencing in any way the action of the Reconstruction Finance Corporation, Farm Credit Administration, Federal Crop Insurance Corporation, Farmers' Home Corporation, the the Secretary of Agriculture acting through the Farmers' Home Administration, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, or any division officer, or employee thereof, or of any corporation organized under sections 1131-1134m of Title 12, [or in which a Production Credit Corporation holds stock], or of any regional agricultural credit corporation established pursuant to law, or of the National Agricultural Credit Corporation, a Federal Home Loan Bank, the Federal Home Loan Bank Board, the Home Owners' Loan Corporation, a Federal Savings and Loan Association, a Federal land bank, a joint-stock land bank, a National farm loan association, or of a Federal Reserve bank, upon any application, advance, discount, purchase, purchase agreement, repurchase agreement, commitment, or loan, or any change or extension of any of the same, by renewal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

* * * * *

ACT OF DECEMBER 6, 1945

AN ACT To provide for financial control of Government corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Government Corporation Control Act".

* * * * *

SEC. 101. As used in this Act the term "wholly owned Government corporation" means the Commodity Credit Corporation; [Federal Intermediate Credit Banks; Production Credit Corporations;] Regional Agricultural Credit Corporations; Farmers Home Corporation; Federal Crop Insurance Corporation; Federal Farm Mortgage Corporation; Federal Surplus Commodities Corporation; Reconstruction Finance Corporation; Defense Plant Corporation; Defense Supplies Corporation; Metals Reserve Company; Rubber Reserve Company; War Damage Corporation; Federal National Mortgage Association; the RFC Mortgage Company; Disaster Loan Corporation; Inland Waterways Corporation; Warrior River Terminal Company; Virgin Islands Corporation; Federal Prison Industries, Incorporated; United States Spruce Production Corporation; Institute of Inter-American Affairs; Institute of Inter-American Transportation; Inter-American Educational Foundation, Incorporated; Inter-American Navigation Corporation; Preneinradio, Incorporated; Cargoes, Incorporated; Export-Import Bank of Washington; Petroleum Reserves Corporation; Rubber Development Corporation; U. S. Commercial Company, Smaller War Plants Corporation; Federal Public Housing Authority (or Public Housing Administration) and including public housing projects financed from appropriated funds and operations thereof; Defense Homes Corporation; Federal Savings and Loan Insurance Corporation; Home Owners' Loan Corporation; United States Housing Corporation; Federal Housing Administration; Saint Lawrence Seaway Development Corporation; Panama Canal Company; Tennessee Valley Authority; and Tennessee Valley Associated Cooperatives, Incorporated.

* * * * *

SEC. 201. As used in this Act the term "mixed-ownership Government corporations" means (1) the Central Bank for Cooperatives and the Regional Banks for Cooperatives, (2) Federal Land Banks, (3) *Federal Intermediate Credit Banks*, (4) Federal Home Loan Banks, and [(4)] (5) Federal Deposit Insurance Corporation.

* * * * *

SEC. 302. The banking or checking accounts of all wholly owned and mixed-ownership Government corporations shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve bank, or with a bank designated as a depository or fiscal agent of the United States: *Provided*, That the Secretary of the Treasury may waive the requirements of this section under such conditions as he may determine: *And provided further*, That this section will not apply to the establishment and maintenance in any bank for a temporary period of banking and checking accounts not in excess of \$50,000 in any one bank. The provisions of this section shall not be applicable to Federal Inter-

mediate Credit Banks, [Production Credit Corporations,] the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to report annually to the Secretary of the Treasury the names of the depositaries in which such corporation keeps a banking or checking account, and the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress which he deems advisable upon receipt of any such annual report.

SEC. 303. (a) All bonds, notes, debentures, and other similar obligations which are hereafter issued by any wholly owned or mixed-ownership Government corporation and offered to the public shall be in such forms and denominations, shall have such maturities, shall bear such rates of interest, shall be subject to such terms and conditions, shall be issued in such manner and at such times and sold at such prices as have been or as may be approved by the Secretary of the Treasury.

(b) Hereafter, no wholly owned or mixed-ownership Government corporation shall sell or purchase any direct obligation of the United States or obligation guaranteed as to principal or interest, or both, for its own account and in its own right and interest, at any one time aggregating in excess of \$100,000, without the approval of the Secretary of the Treasury: *Provided*, That the Secretary of the Treasury may waive the requirement of his approval with respect to any transaction or classes of transactions subject to the provisions of this subsection for such period of time and under such conditions as he may determine.

(c) The Secretary of the Treasury is hereby authorized to exercise any of the functions vested in him by this section through any officer, or employee of any Federal agency whom he may designate, with the concurrence of the head of the agency concerned, for such purpose.

(d) Any mixed-ownership Government corporation from which Government capital has been entirely withdrawn shall not be subject to the provisions of section 302 or of this section during the period such corporation remains without Government capital. The provisions of subsections (a) and (b) of this section shall not be applicable to Federal Intermediate Credit Banks, [Production Credit Corporations,] the Central Bank for Cooperatives, the Regional Banks for Cooperatives, or the Federal Land Banks, except that each such corporation shall be required to consult with the Secretary of the Treasury prior to taking any action of the kind covered by the provisions of subsections (a) and (b) of this section, and in the event an agreement is not reached, the Secretary of the Treasury may make a report in writing to the corporation, to the President, and to the Congress stating the grounds for his disagreement.

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REVISED STATUTES OF THE UNITED STATES

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SEC. 5136. * * *

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Seventh. (Last two sentences only.)

* * * * *

The limitations and restrictions herein contained as to dealing in, underwriting and purchasing for its own account, investment securities shall not apply to obligations of the United States, or general obligations of any State or of any political subdivision thereof, or obligations issued under authority of the Federal Farm Loan Act, as amended, or issued by the *thirteen banks for cooperatives or any of them or the Federal Home Loan Banks or the Home Owners' Loan Corporation*, or obligations which are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States, or obligations of the Federal National Mortgage Association, or such obligations of any local public agency (as defined in section 110 (h) of the Housing Act of 1949) as are secured by an agreement between the local public agency and the Housing and Home Finance Administrator in which the local public agency agrees to borrow from said Administrator, and said Administrator agrees to lend to said local public agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or such obligations of a public housing agency (as defined in the United States Housing Act of 1937, as amended) as are secured either (1) by an agreement between the public housing agency and the Public Housing Administration in which the public housing agency agrees to borrow from the Public Housing Administration, and the Public Housing Administration agrees to lend to the public housing agency, prior to the maturity of such obligations (which obligations shall have a maturity of not more than eighteen months), monies in an amount which (together with any other monies irrevocably committed to the payment of interest on such obligations) will suffice to pay the principal of such obligations with interest to maturity thereon, which monies under the terms of said agreement are required to be used for the purpose of paying the principal of and the interest on such obligations at their maturity, or (2) by a pledge of annual contributions under an annual contributions contract between such public housing agency and the Public Housing Administration if such contract shall contain the covenant by the Public Housing Administration which is authorized by subsection (b) of section 22 of the United States Housing Act of 1937, as amended, and if the maximum sum and the maximum period specified in such contract pursuant to said subsection 22 (b) shall not be less than the annual amount and the period for payment which are requisite to provide for the payment when due of all installments of principal and interest on such obligations: *Provided*, That in carrying on the business commonly known as the safe-deposit business the association shall not invest in the capital stock of a corporation organized under the law of any State to conduct a safe-deposit business in an amount in excess of 15 per centum of the capital stock of the association actually paid in and unimpaired and 15 per centum of its unimpaired surplus. [The limitations and restrictions herein contained as to

dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development or the thirteen banks for cooperatives organized under the Farm Credit Act of 1933, or any of them which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall at any one time hold obligations issued by either of said banks as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount, with respect to each issuer, exceeding 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund.】 *The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: Provided, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund.*



BILLS PASSED OVER

The bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, to provide for supervision of production credit associations, and for other purposes was announced as next in order.

Mr. BIBLE. Mr. President, I ask that the bill be passed over. It is not a bill which should appropriately be considered upon a call of the calendar.

The PRESIDING OFFICER. The bill will be passed over.

The bill (S. 3982) to provide for the maintenance of production of tungsten, asbestos, fluorspar, and columbium-tantalum in the United States, its Territories, and possessions, and for other purposes was announced as next in order.

Mr. PURTELL. Mr. President, since the amount involved in this bill will ultimately be approximately \$89 million, in the opinion of the Senator from Connecticut, it is not appropriate for consideration upon a call of the calendar. However, I have no objection to the bill. I hope it will be taken up on motion, at which time I shall be glad to vote for it.

The PRESIDING OFFICER. The bill will be passed over.

The bill (H. R. 9052) to amend the Export Control Act of 1949 to continue for an additional period of 2 years the authority provided thereunder for the regulation of exports was announced as next in order.

Mr. ERVIN. Mr. President, I ask that the bill be passed over, on the ground that it is not appropriate for consideration upon a call of the calendar.

The PRESIDING OFFICER. The bill will be passed over.

BILL PASSED TO FOOT OF THE CALENDAR

The bill (S. 3363) for the relief of Miroslav Slovak was announced as next in order.

Mr. PURTELL. Mr. President, we have no report on the bill; and for that reason, and that reason alone, I ask that the bill be passed over.

The PRESIDING OFFICER. Will the Senator from Connecticut withhold his objection for a moment? The Chair notes that the Senator from North Carolina is seeking recognition.

Mr. PURTELL. I am very happy to withhold my objection.

Mr. ERVIN. There is a report on the bill. It may be that the Senator will be willing to ask that the bill go to the foot of the calendar, rather than be passed over.

Mr. PURTELL. I have no objection to the bill going to the foot of the calendar. However, the report was not available when we went through the calendar today, as late as 12 o'clock.

The PRESIDING OFFICER. Does the Senator from Connecticut ask that the bill go to the foot of the calendar?

Mr. PURTELL. I ask that the bill be passed to the foot of the calendar, in the hope that we may have time to study the

report before the end of the calendar is reached.

The PRESIDING OFFICER. The bill will go to the foot of the calendar.

LT. COMDR. MORTIMER T. CLEMENT

The bill (H. R. 4873) for the relief of Lt. Comdr. Mortimer T. Clement, Medical Corps, United States Navy, retired, was considered, ordered to a third reading, read the third time, and passed.

CONVEYANCE OF CERTAIN LANDS IN ALASKA

The Senate proceeded to consider the bill (S. 3344) to authorize the Secretary of Agriculture to convey to the Territory of Alaska certain lands in the city of Sitka, known as Baranof Castle site.

Mr. MORSE. Mr. President, I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Oregon will be stated.

The LEGISLATIVE CLERK. On page 2, lines 4 and 5, it is proposed to strike out: "within a period of 25 years from the date of the conveyance"; and on page 2, lines 8 and 9, to strike out "without the consent of the Secretary of the Interior."

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Oregon [Mr. MORSE].

Mr. ELLENDER. Mr. President, may we have an explanation of the amendment?

Mr. MORSE. All it means is that if the lands are not used for the purposes for which they are held, they will revert to the United States. I see no reason why we should limit the reversion to a period of 25 years from the date of conveyance as the period of time within which the lands may not be used for other purposes. Let Congress decide 25 years from now what disposition it may wish to make of the lands, if it is desired to use them for purposes other than those set forth in the conveyance.

I have no objection to the conveyance, but I believe that the reverter should be general, and should not give the Territory of Alaska the right to hold the lands for 25 years for a certain purpose, and then cease to use them for that purpose, without the lands reverting to the United States after a period of 25 years.

Mr. ELLENDER. As I understand, the purpose of the amendment is that if the Territory of Alaska does not use the land for the purposes intended, even after the period of 25 years, the land will revert to the United States.

Mr. MORSE. That is correct.

Mr. ELLENDER. I have no objection to the amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Oregon [Mr. MORSE].

The amendment was agreed to.

Mr. ELLENDER. Mr. President, I ask unanimous consent to have printed in

the RECORD at this point a brief explanation of the bill.

There being no objection, the explanation was ordered to be printed in the RECORD, as follows:

EXPLANATION OF S. 3344

This bill would clarify the title to a small tract in Alaska (slightly in excess of 1 1/3 acres) by providing for its conveyance to the Territory of Alaska. This tract, the Baranof Castle site, was the scene in 1867 of the transfer of Alaska from Russia to the United States and is desired by the Territory to be developed as an historic site. The tract was "transferred" to the city of Sitka in 1932 subject to the condition that if it should ever be transferred, or used for commercial purposes, title would revert to the United States. The city of Sitka wishes to transfer its interest to the Territory, but there is some doubt as to the nature of the interest held by the city and whether title would revert to the United States if the city attempted to transfer the tract to the Territory. This bill would clear up these questions by transferring the interest of the United States to the Territory, subject to reversion to the United States if the Territory should attempt to transfer the tract.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading; read the third time, and passed, as follows:

Be it enacted, etc., That the Secretary of Agriculture is hereby authorized and directed to convey, without reimbursement therefor, to the Territory of Alaska, for use as a historic monument site, all the right, title, and interest of the United States to the following described lands, containing 1.349 acres, more or less, and improvement thereon, known as the Baranof Castle site: The tract of land formerly occupied by the Alaska Agricultural Experiment Station, more particularly shown on the plat of Sitka Townsite, Alaska, United States survey numbered 1474, tract A, approved April 2, 1925, as the United States Reserve for Agricultural Investigations and Weather Service: *Provided,* That if the Territory of Alaska shall attempt to transfer title to or control over these lands, or to devote them to a use other than as a historic monument site title thereto shall revert to the United States.

TOBACCO MARKETING QUOTA PROVISIONS

The Senate proceeded to consider the bill (S. 3261) to amend the tobacco marketing quota provisions of the Agricultural Adjustment Act of 1938, as amended, which had been reported from the Committee on Agriculture and Forestry with an amendment, on page 1, line 8, after the word "of", to strike out "tobacco," and insert "tobacco," so as to make the bill read:

Be it enacted, etc., That section 312 of the Agricultural Adjustment Act of 1938, as amended (7 U. S. C. 1312), is amended (a) by inserting in subsection (a) immediately following the words "December 1 of any marketing year" the language "with respect to flue-cured tobacco, and February 1 of any marketing year with respect to other kinds of tobacco" and (b) by striking out in subsection (b) the words "prior to the first day of December" and inserting in lieu thereof the language "not later than the first day

of December with respect to flue-cured tobacco, and not later than the first day of February with respect to other kinds of tobacco.

The amendment was agreed to.

The bill was ordered to be engrossed for a third reading, read the third time, and passed.

Mr. ELLENDER subsequently said: Mr. President, in connection with Calendar No. 2174, Senate bill 3261, which the Senate passed a few moments ago, I had overlooked the fact that a House bill in the same language was under consideration by the Committee on Agriculture and Forestry.

I therefore ask unanimous consent that the votes by which Senate bill 3261 was ordered to be engrossed for a third reading, read the third time, and passed, be reconsidered, in order that I may request consideration of the House bill.

The PRESIDING OFFICER. Without objection, the votes by which Senate bill 3261 was ordered to be engrossed for a third reading, read the third time, and passed, are reconsidered.

Mr. ELLENDER. I now ask unanimous consent that the Committee on Agriculture and Forestry be discharged from the further consideration of House bill 9475, and that the Senate proceed to consider the House bill.

The PRESIDING OFFICER. Without objection, the Committee on Agriculture and Forestry is discharged from the further consideration of House bill 9475.

The bill will be stated by title for the information of the Senate.

The CHIEF CLERK. A bill (H. R. 9475) to amend the tobacco-marketing-quota provisions of the Agricultural Adjustment Act of 1938, as amended.

Mr. ELLENDER. Mr. President, this bill would extend the time for announcing marketing quotas for tobacco, except flue-cured tobacco, from November 30 to January 31. The bulk of the tobacco crop each year is marketed by the middle of January so that much better information as to the size of the crop is available by the end of January than in November, which is the month when the tobacco begins moving to market. The marketing quota for the next crop can therefore be much more accurately determined in January. Inability to determine the proper quota in November made it necessary for Congress to provide for revision of the 1955 and 1956 quotas for burley tobacco after they had been announced. Passage of this bill, it is hoped, will avoid the need for such legislation by Congress in future years.

The PRESIDING OFFICER. Is there objection to the present consideration of House bill 9475?

There being no objection, the bill was considered, ordered to a third reading, read the third time, and passed.

The PRESIDING OFFICER. Without objection, Senate bill 3261 is indefinitely postponed.

BILL PASSED OVER

The bill (S. 2572) to authorize the interchange of lands between the Department of Agriculture and military departments of the Department of De-

fense, and for other purposes, was announced as next in order.

Mr. PURTELL. I ask that the bill be passed over.

The PRESIDING OFFICER. The bill will be passed over.

EXPENSES OF ADVISORY COMMITTEE ON SOIL AND WATER CONSERVATION

The bill (S. 3314) to authorize the Secretary of Agriculture to pay the expenses of an advisory committee on soil and water conservation was considered, ordered to be engrossed for a third reading, read the third time, and passed, as follows:

Be it enacted etc., That the Secretary of Agriculture is authorized to pay expenses of an Advisory Committee on Soil and Water Conservation and related matters, but such Committee members (other than ex officio members) shall not be deemed to be employees of the United States and shall not receive compensation.

Mr. ELLENDER. Mr. President, I ask unanimous consent to have printed in the RECORD at this point a statement explaining the bill that has just been passed.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

EXPLANATION OF S. 3314

This bill authorizes the Secretary of Agriculture to pay the expenses of the Advisory Committee on Soil and Water Conservation. The Commission's expenses are incurred in furnishing advice to the Department and properly should be borne by the Government. The members of the Commission serve without compensation and will continue to do so. It is further in the interests of the Department that membership on the Commission not be restricted to those able to bear the expense involved in serving on it. The Department estimates that the annual expenditure provided by the bill would be about \$5,000.

AMENDMENT OF SOIL CONSERVATION AND DOMESTIC ALLOTMENT ACT

The bill (S. 3120) to amend the Soil Conservation and Domestic Allotment Act, as amended was announced as next in order.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

Mr. HRUSKA. Mr. President, may we have an explanation of the bill?

Mr. ELLENDER. This is the usual extension for 2 years, to December 31, 1958, of the authority of the Secretary of Agriculture to make soil conservation payments. The Secretary was given this authority in 1936, for 2 years, to give the States an opportunity to enact legislation and submit suitable plans for State programs. Twenty-four States and 2 insular areas have enacted laws providing for such programs. The remainder have not acted.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

There being no objection, the bill was considered, ordered to be engrossed for a third reading, read the third time and passed, as follows:

Be it enacted, etc., That section 8 of the Soil Conservation and Domestic Allotment Act, as amended (16 U. S. C. 550h), is amended by striking out of subsection (a) "January 1, 1957" and "December 31, 1956", wherever they appear therein, and inserting in lieu thereof "January 1, 1959" and "December 31, 1958", respectively.

EXCHANGE OF ISOLATED PARCELS, AGRICULTURAL RESEARCH CENTER

The bill (S. 2585) to authorize an exchange of land at the Agricultural Research Center was announced as next in order.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

Mr. MORSE. Mr. President, if I may have the attention of the Senator from Louisiana [Mr. ELLENDER], I am correct in understanding that all that is involved is a transaction in which the Federal Government is exchanging certain land for land of at least equal value?

Mr. ELLENDER. The Senator is correct. It is land of at least equal value. In fact, it is more valuable, because the land which the Federal Government is obtaining consist of 3,126 square feet, for which it is exchanging 1,375 square feet. The dedication of a road cut these small parcels off from larger parcels of which they were parts, and the exchange would result in their incorporation in larger parcels to which they are adjacent.

Mr. MORSE. I commend the Senator from Louisiana for his explanation. I have no objection.

The PRESIDING OFFICER. Is there objection to the present consideration of the bill?

There being no objection, the bill was considered, ordered to be engrossed for a third reading, read the third time and passed, as follows:

Be it enacted, etc., That the Secretary of Agriculture is hereby authorized to convey by quitclaim deed to the Powder Mill Development Co., Inc., a parcel of land containing approximately 1,375 square feet and located on the northerly side of Selman Road, Prince Georges County, Md., and separated from the Agricultural Research Center, Beltsville, Md., by Selman Road and Cherry Hill Road, in exchange for that parcel of land now owned by the Powder Mill Development Co., Inc., containing approximately 3,126 square feet and located on the southerly side of the said Selman Road, Prince Georges County, Md., and adjoining other lands of the Agricultural Research Center, Beltsville, Md., *Provided*, That the lands so acquired from the Powder Mill Development Co., Inc., may be acquired subject to such reservations and outstanding interests as the Secretary determines will not interfere with the use thereof in connection with the Agricultural Research Center, Beltsville, Md.

CROP DEPREDATIONS BY WATER-FOWL

The bill (S. 2732) to authorize the Secretary of the Interior to cooperate with Federal and non-Federal agencies in the

June 11, 1956

18. CCC CHARTER. Passed as reported S. 3669, to amend the CCC Charter Act so as to amend the penal provision by extending it to cover property pledged to secure CCC obligations and reducing the offense to a misdemeanor where the value of the property involved is \$500 or less. p. 8971
19. ANIMAL DISEASES. Passed as reported S. 3046, which provides for the giving of certain notices under the animal quarantine laws by publication in the Federal Register only and repeals the requirement for publication in newspapers and written notice to individuals. p. 8972
20. DEPRESSED AREAS. Sen. Douglas inserted and discussed an amendment to S. 2663, in the nature of a substitute, intended to be proposed by him on behalf of Sens. Neely, Kennedy, and himself. The amendment would create an Area Redevelopment Administration. p. 8999
21. LIBRARIES. Passed with amendments S. 3430, to create a National Library of Medicine. p. 8988
22. APPROPRIATIONS. The Appropriations Committee (under authority of Senate order of June 7) reported on June 8 H. R. 11319, the public works appropriation bill for 1957. pp. 8925, 8935, 8969
23. FISHERIES. Received from the Interior Department a proposed bill to encourage the development, marketing, and distribution of domestic fishery resources of the U. S.; to Interstate and Foreign Commerce Committee. p. 8926
24. PROPERTY. Received a Natl. Assoc. of Attorneys resolution relating to the escheat of funds or property in custody of Federal officers. p. 8926
25. WHEAT. Sen. Carlson inserted letters received from a Kan. Co. Committee of Agricultural Agencies requesting the Government to loan farmers wheat the Government already has in storage in areas which have suffered from drought. p. 8927
26. BUILDINGS. The Public Works Committee reported without amendment S. 3866, to facilitate the making of lease-purchase agreements by GSA under the Public Buildings Act of 1949 (S. Rept. 2171). p. 8928
27. GOVERNMENT OPERATIONS COMMITTEE reported the following bills: (p. 8928)
 - H. R. 10417, without amendment, to amend the Federal Register Act relative to publication during an enemy attack on the U. S. (S. Rept. 2196).
 - S. 3843, with amendment, to adjust the application of section 322 of the Economy Act of 1932 to premises leased for Government purposes (S. Rept. 2198).
 - H. R. 7855, with amendment, to amend the Federal Property and Administrative Services Act of 1949 to extend until June 30, 1956, the period during which disposals of surplus property may be made by negotiation (S. Rept. 2199).
28. LEGISLATIVE PROGRAM. Sen. Johnson announced that the public works appropriation bill, and probably the social security bill, will be taken up Wed., June 13. p. 8936
29. FOREIGN AID. Sen. Smith inserted Secretary Dulles' Iowa State College address on foreign affairs, including economic aid to foreign nations. p. 8939
Sen. Smith inserted a newspaper editorial on the importance of our foreign aid program. p. 8941
Sen. Symington inserted a newspaper editorial expressing the need for a reappraisal of our foreign aid program. p. 8943

30. PERSONNEL. Passed without amendment S. 3681, to increase to \$5,000 the total amount a person may earn when holding more than one Federal job, without coming under the restriction of the dual compensation law. p. 8960
31. FARM CREDIT. Passed over at the request of Sen. Bible H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. p. 8961
32. ELECTRIFICATION. Sen. Morse spoke on and inserted a newspaper editorial relative to the taxes paid by private utilities as compared with public-owned power systems. p. 9010
33. RECESSED until Wed., June 13. p. 9011

ITEMS IN APPENDIX

34. RESEARCH; ATOMIC ENERGY. Sen. Anderson inserted his speech discussing the world situation and "what atomic energy might do to improve it," and describing a New York City laboratory where radioactive isotopes are being applied to the problems of agriculture. p. A4613
35. CONSERVATION. Extension of remarks of Sen. Scott expressing concern over the proposed disposition by the Government of certain coastal lands and stating that "there seems to be a serious question of what will happen to the land in respect to soil erosion." p. A4616
Rep. Johnson, Wis., inserted a magazine article citing Rep. Blatnik's record on behalf of conservation. p. A4640
36. ELECTRIFICATION. Sen. Lehman inserted a monthly radio report which he made to his constituents outlining some of the accomplishments of this second session of the 84th Congress, with special emphasis on the Niagara Falls development program. p. A4617
37. FARM PROGRAM. Rep. Jensen commended the administration's farm policies, and criticized the elimination from the new farm bill of soil-bank payments this year. p. A4621
38. APPROPRIATIONS. Rep. Price inserted a newspaper article, "Along the Political Trails--Little Dixie Pays Tribute to Clarence Cannon Today." p. A4628
39. FOREIGN TRADE. Rep. Furham inserted a statement prepared for the House Ways and Means Committee relating to the constitutionality of the OTC proposal. p. A4629
Rep. Jenkins inserted Rep. Henderson's statement in opposition to H. R. 5550, to provide U. S. membership in OTC. p. A4647
40. FOREIGN AID. Reps. Multer and Rooney inserted David Lawrence's article, "Today In World Affairs--Eisenhower Tactical Error Blamed In Foreign-Aid Upset." pp. A4638, A4642
Rep. Smith, Wis., inserted the minority views report on H. R. 11356, the foreign aid bill. p. A4664
Extension of remarks of Rep. Alger citing arguments for and against the foreign aid bill. p. A4666

Calendar No. 2168

84TH CONGRESS
2D SESSION

H. R. 10285

[Report No. 2145]

IN THE SENATE OF THE UNITED STATES

JUNE 4, 1956

Read twice and referred to the Committee on Agriculture and Forestry

JUNE 6 (legislative day, JUNE 4), 1956

Reported by Mr. HOLLAND, with amendments

[Omit the part struck through and insert the part printed in italic]

AN ACT

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Farm Credit Act of
4 1956".

5 DECLARATION OF POLICY

6 SEC. 2. It is declared to be the policy of the Congress
7 to continue to provide agriculture with a sound, dependable,
8 and effective source of credit; to promote the efficiency of the
9 farm credit system by merging production credit corporations

1 in Federal intermediate credit banks and to facilitate
2 increased farmer participation in the management, con-
3 trol, and ownership of the merged banks and retirement
4 of Government capital therein; to encourage and pro-
5 mote the continued growth and development of the pro-
6 duction credit associations as self-supporting cooperative
7 lending institutions operating on a sound credit basis with
8 maximum local authority to determine credit needs and loan
9 policies consistent with the maintenance of a national pro-
10 duction credit system; and to continue to provide other
11 financing institutions making loans to farmers and ranchers
12 with the right to borrow from and rediscount with such
13 merged banks on a basis comparable with the production
14 credit associations regardless of the ownership of such banks.
15 The provisions of this Act shall be construed in keeping
16 with this declaration of policy.

17 TITLE I—PRODUCTION CREDIT SYSTEM

18 SEC. 101. MERGER OF PRODUCTION CREDIT CORPORA-
19 TIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a)
20 TRANSFER OF ASSETS.—The production credit corporation in
21 each farm credit district is hereby merged in the Federal
22 intermediate credit bank of the district and all assets, funds,
23 contracts, property, and records belonging to such corpora-
24 tion, except stock in production credit associations, are
25 hereby transferred to and vested in such bank. All obliga-

1 tions and liabilities of the production credit corporation shall
2 be assumed by the Federal intermediate credit bank of the
3 district. Stock held by each production credit corporation
4 in production credit associations is transferred to the Gov-
5 ernor of the Farm Credit Administration and the Governor
6 shall cancel an equal par amount of stock of the corporation.

7 (b) SERVICES TO AND SUPERVISION OF PRODUCTION
8 CREDIT ASSOCIATIONS.—In order to carry out the declared
9 policy of this Act with respect to the production credit asso-
10 ciations, the Farm Credit Administration shall, by appropri-
11 ate provisions in the charter and bylaws, or otherwise, pro-
12 vide for such organization and assignment of functions within
13 the Federal intermediate credit banks as will assure proper
14 supervision of and assistance to the production credit associa-
15 tions in a manner which will enable them to make sound
16 credit available to farmers and ranchers. The income de-
17 rived from the surplus transferred from the production credit
18 corporation to the Federal intermediate credit bank of the
19 district shall be used to pay expenses of the bank in pro-
20 viding such supervision and assistance, and expenses in ex-
21 cess of such income may be paid out of other resources of
22 the bank.

23 (c) OFFICERS AND EMPLOYEES.—Notwithstanding any
24 other provision of law, the employment of the officers and
25 employees of each Federal intermediate credit bank and

1 each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

11 SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

13 "CAPITAL STOCK

14 "SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP;
15 DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal
16 intermediate credit bank is authorized to issue class A and
17 class B stock as follows:

18 "(1) Class A stock shall have a par value of \$100
19 per share and shall be issued to and held by the Governor
20 of the Farm Credit Administration on behalf of the United
21 States. Stock of all Federal intermediate credit banks held
22 by the Secretary of the Treasury shall be transferred to the
23 Governor and may be reallocated by him in such manner
24 as he determines necessary to meet the needs of the respec-

1 tive banks. The Governor shall then exchange such stock
2 of each bank for an equal par amount of class A stock of
3 the bank. Stock of each production credit corporation held
4 by the Governor (less the amount canceled pursuant to
5 section 101 of the Farm Credit Act of 1956) shall be
6 exchanged for an equal par amount of class A stock of
7 the Federal intermediate credit bank in which such corpora-
8 tion is merged pursuant to section 101 of such Act. No
9 dividends shall be paid on class A stock. Annually at the
10 end of its fiscal year each such bank shall determine the
11 amount of its class A stock which shall be retired. When-
12 ever the total of the capital stock, participation certificates,
13 surplus, and reserves of the bank is more than one-sixth
14 of the highest month-end balance of debentures and other
15 obligations issued by or for the bank, outstanding during
16 the immediately preceding five years, the minimum amount
17 of class A stock to be retired shall be the total amount of
18 class B stock and participation certificates issued for that
19 year. All class A stock shall be retired at par. The pro-
20 ceeds of such class A stock retirements of each bank shall
21 be paid into the Treasury as miscellaneous receipts until
22 there is so paid a sum equal to \$30,000,000 *plus* the amount
23 of class A stock of the bank issued in exchange for stock of
24 the production credit corporation. The proceeds of any fur-
25 ther such stock retirements shall be paid into the revolving

1 fund established by section 5 (e) of the Farm Credit Act of
2 1933, as amended. The Governor of the Farm Credit Ad-
3 ministration is authorized to purchase from time to time
4 class A stock in any bank in such amount as he determines
5 is needed to meet the credit needs of the bank and such re-
6 volving fund shall continue to be available for such purchases
7 as provided in said section 5 (e). The Governor may at any
8 time require the bank to retire such class A stock if, in
9 his judgment, the bank has resources available therefor,
10 and the proceeds of such retirements shall be returned to
11 such revolving fund.

12 “(2) Class B stock shall have a par value of \$5 per
13 share and may be issued only to production credit associations
14 in series and amounts approved by the Farm Credit Admin-
15 istration. Such stock shall be issued only at par and may
16 be transferred to another production credit association with
17 the approval of the issuing bank. Whenever a bank has no
18 class A stock outstanding it may pay like dividends on class
19 B stock and participation certificates in an amount not to
20 exceed 5 per centum in any year if declared by the board
21 of directors. Dividends on class B stock and participation
22 certificates shall not be cumulative. Within sixty days after
23 the effective date of the Farm Credit Act of 1956, the pro-
24 duction credit associations shall subscribe to class B stock
25 in the banks in an aggregate amount equal to 15 per centum

1 of the total amount of class A stock in all banks. Such
2 required amount of subscriptions shall be allotted among the
3 several districts in the proportion that the average amount
4 of the bank's loans to and discounts for the production credit
5 associations of the district, outstanding during the imme-
6 diately preceding five fiscal years, is of the average of such
7 loans and discounts of all banks outstanding during such five-
8 year period. The amount so allotted to each district shall be
9 further allotted to each production credit association on the
10 basis of the proportion that its average indebtedness (loans
11 and discounts) to the bank during the immediately preceding
12 five fiscal years is of the average of such indebtedness of all
13 production credit associations to the bank during such five-
14 year period. Each production credit association shall sub-
15 scribe to class B stock in the bank of the district in the
16 amount so allotted to it. One-third of the purchase price
17 of such stock subscription shall be paid at the time of such
18 subscription, one-third shall be paid within one year after
19 the effective date of said Act, and the balance shall be paid
20 within two years after such effective date. Such class B
21 stock shall be issued as payments therefor are made. Any
22 production credit association chartered after the effective date
23 of the Farm Credit Act of 1956 shall thereupon purchase
24 class B stock in the bank in the amount of \$5,000, and
25 such amount shall be adjusted at the end of five years there-

1 after to an amount determined by applying to its average in-
2 debtedness to the bank during such five-year period the
3 same percentage as the percentage which the initial sub-
4 scriptions of other production credit associations was of
5 their indebtedness, as provided in this subsection: *Provided*,
6 That this provision shall not apply to any association owning
7 stock in the bank in such required amount as a result of
8 merger, consolidation, or reorganization of one or more
9 associations. After all class A stock has been retired, the
10 bank may retire class B stock at par and participation cer-
11 tificates at a face amount under policies established by the
12 Farm Credit Administration. Class B stock and participa-
13 tion certificates shall be retired without preference and in
14 such manner that the oldest outstanding stock or certificates
15 at any given time will be retired first. In case of liquida-
16 tion or dissolution of any production credit association or
17 other financing institution, the stock or participation cer-
18 tificates of the bank owned by such association or institu-
19 tion may be retired by the bank at the fair book value thereof,
20 not exceeding par or face amount, as the case may be.

21 “(b) LIEN ON STOCK AND PARTICIPATION CERTIFI-
22 CATES.—Each Federal intermediate credit bank shall have a
23 first lien on all stock in the bank owned by each production
24 credit association and on all participation certificates owned
25 by other financing institutions as additional collateral for any

1 indebtedness of the holders thereof to the bank: *Provided*,
 2 That the bank shall make no loan or advance on the security
 3 of its own stock or participation certificates. In any case
 4 where the debt of a production credit association or other
 5 financing institution is in default, the bank may retire and
 6 cancel all or a part of the stock of the bank held by the
 7 association or of the participation certificates held by the
 8 other financing institution at the fair book value thereof,
 9 not exceeding par or face amount, as the case may be, in
 10 total or partial liquidation of the debt."

11 SEC. 103. Section 206 of the Federal Farm Loan Act,
 12 as amended, is hereby amended to read as follows:

13 "APPLICATION OF EARNINGS

14 "SEC. 206. (a) ANNUAL APPLICATION.—At the end
 15 of its fiscal year, each Federal intermediate credit bank shall
 16 determine the amount of its net earnings after paying or
 17 providing for all operating expenses (including reasonable
 18 valuation reserves and losses in excess of any such applicable
 19 reserves) and shall apply such net earnings as follows: (1)
 20 To the restoration of the amount of the impairment, if any,
 21 of capital stock and participation certificates, as determined
 22 by its board of directors; (2) to the restoration of the amount
 23 of the impairment, if any, of the surplus account established
 24 by this subsection, as determined by its board of directors;

1 (3) 25 per centum of any remaining earnings shall be used
2 to create and maintain a reserve account equal to 25 per
3 centum of the outstanding capital stock and participation
4 certificates of the bank; (4) if said bank shall have out-
5 standing capital stock held by the United States during
6 the whole or any part of its fiscal year, it shall next pay
7 to the United States as a franchise tax, a sum equal to 25
8 per centum of its earnings then remaining, not exceeding,
9 however, a rate of return on such Government capital cal-
10 culated at a rate equal to the computed average annual rate
11 of interest on all public issues of public debt obligations of
12 the United States issued during the fiscal year of the United
13 States Treasury ending next before such tax is due, as certi-
14 fied to the Farm Credit Administration by the Secretary of
15 the Treasury; (5) dividends on class B stock and participa-
16 tion certificates may be declared as provided in section 205
17 (a) of this Act; and (6) any remaining net earnings shall
18 be distributed as patronage refunds as provided in subsec-
19 tion (b) of this section. Notwithstanding the provisions of
20 item (3) of this subsection, if at the end of any fiscal year
21 the sum of the surplus and the reserve account of any bank
22 is less than its outstanding capital stock and participation
23 certificates, the bank shall continue to apply such 25 per
24 centum of its net earnings to the reserve account until the
25 sum of the surplus and the reserve account is equal to its

1 outstanding capital stock and participation certificates. Each
2 bank shall, on the effective date of the Farm Credit Act
3 of 1956, establish a surplus account consisting of its earned
4 surplus account, its reserve for contingencies, and the surplus
5 of the production credit corporation transferred to the bank.
6 No part of such surplus of any bank shall be distributed as
7 patronage refunds or as dividends. In the event of a net loss
8 in any fiscal year after providing for all operating expenses
9 (including reasonable valuation reserves and losses in excess
10 of any such applicable reserves), such loss shall be absorbed
11 by: first, charges to the reserve account; second, charges to
12 surplus other than that transferred from the production credit
13 corporation of the district; third, charges to surplus trans-
14 ferred from the production credit corporation of the district;
15 fourth, the impairment of class B stock and participation
16 certificates; and fifth, the impairment of class A stock.

17 “(b) PATRONAGE REFUNDS.—Whenever at the end of
18 its fiscal year a Federal intermediate credit bank has class A
19 stock outstanding, patronage refunds declared for that year
20 shall be paid in class B stock to production credit associations
21 and in participation certificates to other financing institutions
22 borrowing from or rediscounting with the bank during the
23 fiscal year for which such refunds are declared. The recipi-
24 ents of such patronage refunds shall not be subject to Federal
25 income taxes thereon. Whenever at the end of its fiscal year

1 a Federal intermediate credit bank has no class A stock
2 outstanding, patronage refunds declared for that year may
3 be paid in such class B stock and participation certificates or
4 in cash as determined by the bank. All patronage refunds
5 shall be paid in the proportion that the amount of interest
6 earned by the bank on its loans to and discounts for each
7 production credit association or other financing institution
8 bears to the total interest earned by the bank on all such
9 loans and discounts outstanding during the fiscal year. Each
10 participation certificate issued in payment of patronage re-
11 funds shall be in multiples of \$5 and shall state on its face the
12 rights, privileges, and conditions applicable thereto. Patron-
13 age refunds shall not be paid to any other Federal inter-
14 mediate credit bank, or to any Federal land bank or bank
15 for cooperatives.

16 “(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR
17 DISSOLUTION.—In the case of liquidation or dissolution of
18 any Federal intermediate credit bank, after payment or re-
19 tirement, as the case may be, first, of all liabilities; second,
20 of all class A stock at par; third, of all class B stock at par
21 and all participation certificates at face amount; any re-
22 maining assets of the bank shall be distributed as provided
23 in this subsection. Any of the surplus established pursuant
24 to subsection (a) of this section (excluding that transferred
25 from the production credit corporation of the district) which

1 the Farm Credit Administration determines was contributed
2 by financing institutions, other than the production credit
3 associations, rediscounting with or borrowing from the bank
4 on the effective date of the Farm Credit Act of 1956 shall
5 be paid to such institutions, or their successors in interest as
6 determined by the Farm Credit Administration, and the re-
7 maining portion of such surplus (including that transferred
8 from the production credit corporation of the district) shall
9 be paid to the holders of class A and class B stock pro rata.
10 The contribution of each such financing institution under the
11 preceding sentence shall be computed on the basis of the ratio
12 of its patronage to the total patronage of the bank from the
13 date of organization of the bank to the effective date of the
14 Farm Credit Act of 1956. Any assets of the bank then re-
15 maining shall be distributed to the holders of class B stock
16 and the holders of participation certificates pro rata.”

17 SEC. 104. (a) Section 201 (b) of the Federal Farm
18 Loan Act, as amended, is hereby amended by adding at the
19 end thereof the following sentence: “The directors shall have
20 power, subject to the approval of the Farm Credit Adminis-
21 tration, to adopt such bylaws as may be necessary for the
22 conduct of the business of the banks.”

23 (b) Section 202 (a) of the Federal Farm Loan Act,
24 as amended, is hereby amended to read as follows:

1 “SEC. 202. (a) The Federal intermediate credit banks,
2 when chartered and established, shall have power, subject
3 solely to the restrictions, limitations, and conditions contained
4 in this Act or as may be prescribed by the Farm Credit Ad-
5 ministration not inconsistent with the provisions of this Act—

6 “(1) to discount for, or purchase from, any produc-
7 tion credit association organized under the Farm Credit
8 Act of 1933, as amended, with its endorsement, any
9 note, draft, or other such obligation presented by such
10 association; and to make loans and advances to any such
11 association secured by such collateral as may be ap-
12 proved by the Governor of the Farm Credit Ad-
13 ministration;

14 “(2) to discount for, or purchase from, any national
15 bank, State bank, trust company, agricultural credit
16 corporation, incorporated livestock loan company, sav-
17 ings institution, credit union, and any association of agri-
18 cultural producers engaged in the making of loans to
19 farmers and ranchers, with its endorsement, any note,
20 draft, or other such obligation the proceeds of which
21 have been advanced or used in the first instance for
22 any agricultural purpose, including the breeding, raising,
23 fattening, or marketing of livestock; and to make loans
24 and advances to any such financing institution secured
25 by such collateral as may be approved by the Governor

1 of the Farm Credit Administration: *Provided*, That no
2 such loan or advance shall be made upon the security of
3 collateral other than notes or other such obligations of
4 farmers and ranchers eligible for discount or purchase
5 under the provisions of this section, unless such loan
6 or advance is made to enable the financing institution to
7 make or carry loans for any agricultural purpose; and

8 “(3) to make loans to and discount paper for any
9 other Federal intermediate credit bank, any Federal land
10 bank, or any bank for cooperatives organized under the
11 Farm Credit Act of 1933, as amended, all upon terms
12 and at rates of interest or discount approved by the Farm
13 Credit Administration.”

14 (c) Section 202 (c) of the Federal Farm Loan Act,
15 as amended, is amended by changing the word “three” to
16 the word “five”.

17 (d) Section 204 (a) of the Federal Farm Loan Act,
18 as amended, is amended to read as follows:

19 “SEC. 204. (a) Loans and discounts by any Federal
20 intermediate credit bank shall bear such rates of interest
21 or discount as the board of directors of the bank shall from
22 time to time determine with the approval of the Farm Credit
23 Administration, but the rates charged financing institutions
24 other than production credit associations shall be the same
25 as those charged production credit associations.”

1 (e) Section 13 of the Federal Farm Loan Act, as
2 amended, is hereby amended by inserting in paragraph
3 "Seventeenth", after the words "Federal land banks", a
4 comma and the words "to Federal intermediate credit banks,
5 or to banks for cooperatives organized under the Farm
6 Credit Act of 1933, as amended,".

7 (f) Section 203 of the Federal Farm Loan Act, as
8 amended, is amended (i) by inserting in subsection (a)
9 thereof, after the words "outstanding consolidated debentures"
10 the words "or other similar obligations"; and (ii) by insert-
11 ing in subsections (d) and (e) thereof, after the word
12 "debentures" wherever used therein, except in the last
13 sentence of subsection (d), the words "or other similar
14 obligations".

15 SEC. 105. (a) Section 2 of the Farm Credit Act of
16 1933, as amended, is amended to read as follows:

17 "SEC. 2. The Governor of the Farm Credit Administra-
18 tion, hereinafter in this Act referred to as the 'Governor',
19 is authorized and directed to organize and charter twelve
20 banks to be known as 'banks for cooperatives'. One such
21 bank shall be established in each city in which there is
22 located a Federal land bank. The members of the several
23 farm credit boards of the farm credit districts provided for
24 in section 5 of the Farm Credit Act of 1937, as amended,
25 shall be ex officio the directors of the respective banks for

1 cooperatives. Such directors shall have power, subject to
 2 the approval of the Governor, to employ and fix the compen-
 3 sation of such officers and employees of such banks as may
 4 be necessary to carry out the powers and duties conferred
 5 upon such banks under this Act."

6 (b) Section 3 of the Farm Credit Act of 1933 is
 7 amended by striking from the first sentence the words "the
 8 production credit corporations and" and by striking from
 9 the second sentence the words "corporations and".

10 (c) Section 4 of the Farm Credit Act of 1933 is hereby
 11 repealed.

12 (d) Section 5 of the Farm Credit Act of 1933, as
 13 amended, is amended (1) by changing "\$120,000,000" in
 14 subsection (a) thereof to "\$60,000,000"; (2) by striking
 15 from subsection (b) thereof the words "the production credit
 16 corporations and"; (3) by changing "\$40,000,000" in sub-
 17 section (e) thereof to "~~\$100,000,000~~ \$70,000,000"; and
 18 (4) by striking from subsection (e) thereof the words
 19 "and/or paid-in surplus".

20 (e) Section 6 of the Farm Credit Act of 1933, as
 21 amended, is amended to read as follows:

22 "INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION
 23 CREDIT ASSOCIATIONS

24 "SEC. 6. The Governor may purchase class A stock of
 25 any production credit association in such amounts as he

1 determines are required to meet the credit needs of farmers
2 in the area served by such association. Payments for such
3 stock purchased by the Governor shall be made out of the
4 revolving fund authorized by section 5 (a) of this Act.
5 The Governor may at any time require any production
6 credit association to retire and cancel any class A stock
7 held by him in such association if, in his judgment, the
8 association has resources available therefor, and the proceeds
9 of such stock retirements shall be paid into such revolving
10 fund.”

11 (f) Section 20 of the Farm Credit Act of 1933 is
12 amended by changing the fourth sentence to read as fol-
13 lows: “Such articles shall be signed by the individuals unit-
14 ing to form the association and a copy thereof shall be
15 furnished to the Governor.”

16 (g) Section 21 of the Farm Credit Act of 1933, as
17 amended, is amended (1) by striking from the first sentence
18 the words “production credit corporations” and substituting
19 in lieu thereof the words “the Governor”; and (2) by
20 deleting the last sentence thereof.

21 (h) Section 22 of the Farm Credit Act of 1933, as
22 amended, is amended by striking out the words “production
23 credit corporation”, wherever they appear therein, and sub-
24 stituting in lieu thereof “Federal intermediate credit bank”.

25 (i) Section 23 of the Farm Credit Act of 1933, as

1 amended, is amended (1) by changing the first sentence
2 to read as follows: "Each production credit association shall,
3 under such rules and regulations as may be prescribed by
4 the farm credit board of the district with the approval of
5 the Farm Credit Administration, invest its funds and make
6 loans to farmers for general agricultural purposes and other
7 requirements of the borrowers."; (2) by deleting the second
8 sentence; and (3) by striking from the third sentence the
9 word "corporation" and inserting in lieu thereof the words
10 "Federal intermediate credit bank".

11 (j) Section 34 of the Farm Credit Act of 1933, as
12 amended, is hereby amended by adding before the semicolon
13 at the end of "(b)" the words "or to Federal land banks or
14 Federal intermediate credit banks".

15 (k) Section 41 of the Farm Credit Act of 1933, as
16 amended, is hereby amended by adding before the semicolon
17 at the end of "(b)" the words "or to Federal land banks
18 or Federal intermediate credit banks".

19 (l) Section 60 of the Farm Credit Act of 1933, as
20 amended, is amended (1) by striking from the first sentence
21 the words "the production credit corporations,"; (2) by
22 striking from the second sentence the words "association, or
23 corporation" and substituting in lieu thereof the words "or
24 association"; and (3) by striking from the third sentence
25 the words "production credit corporation or", "or corpora-

1 tion", and "corporation or", wherever they appear therein.

2 (m) Section 61 of the Farm Credit Act of 1933 is
3 amended (1) by striking from the first sentence the words
4 "production credit corporation,"; and (2) by striking from
5 the second and third sentences the words "association, or
6 corporation", wherever they appear therein, and substituting
7 in lieu thereof the words "or association".

8 (n) Section 62 of the Farm Credit Act of 1933, as
9 amended, is amended by striking out the words "production
10 credit corporations,".

11 (o) Section 63 of the Farm Credit Act of 1933, as
12 amended, is amended (1) by striking from the first sentence
13 the words "the production credit corporations,"; (2) by
14 striking from the first and second sentences the words "asso-
15 ciations, or corporations" and "associations, and corpora-
16 tions," and substituting in lieu thereof, the words "or associ-
17 ations" and "and associations,", respectively; and (3) by
18 changing the last sentence to read as follows: "The exemp-
19 tion provided herein shall not apply with respect to any
20 production credit association or its property or income after
21 the class A stock held in it by the Governor has been retired,
22 or with respect to any bank for cooperatives or its property
23 or income after the stock held in it by the United States
24 has been retired."

25 (p) Section 65 of the Farm Credit Act of 1933, as

1 amended, is amended (1) by striking out the words “pro-
2 duction credit corporation,”; and (2) by striking out the
3 words “association or corporation”, wherever they appear
4 therein, and substituting in lieu thereof the words “or
5 association”.

6 (q) Section 86a of the Farm Credit Act of 1933 is
7 hereby repealed.

8 SEC. 106. (a) Section 5 of the Farm Credit Act of
9 1937, as amended, is amended (1) by striking from sub-
10 section (d) (2) (B) the words “production credit cor-
11 poration of the district” and substituting in lieu thereof the
12 words “Governor of the Farm Credit Administration”; and
13 (2) by striking from subsection (h) the words “production
14 credit corporation,”.

15 (b) Section 6 of the Farm Credit Act of 1937 is
16 amended (1) by striking from the first sentence of subsec-
17 tion (a) the words “production credit corporation,”; (2)
18 by striking from the third sentence of subsection (a) the
19 word “three”; (3) by striking from the first sentence of
20 subsection (b) the words “the bank for cooperatives, and
21 the production credit corporation” and substituting in lieu
22 thereof the words “and the bank for cooperatives”; and (4)
23 by striking from the last sentence of subsection (b) the
24 words “production credit corporation,”.

25 SEC. 107. (a) Section 8 of the Farm Credit Act of

1 1953 is amended by striking out the words "production credit
2 corporation", wherever they appear therein, and substituting
3 in lieu thereof the words "Federal intermediate credit bank".

4 (b) Subsection (a) of section 16 of the Farm Credit
5 Act of 1953 is amended to read as follows:

6 " (a) Any other provisions of law to the contrary not-
7 withstanding, after the effective date of this Act any produc-
8 tion credit association may, with the approval of the Farm
9 Credit Administration, issue nonvoting preferred stock, to be
10 known as class C stock, which may be purchased and held
11 by the Governor of the Farm Credit Administration and by
12 investors: *Provided*, That the issuance of such stock shall be
13 authorized by vote of not less than two-thirds of the outstand-
14 ing shares of class A stock of the association (other than
15 shares held by the Governor of the Farm Credit Adminis-
16 tration) by the holders thereof in person or by proxy and
17 by vote of not less than two-thirds of the outstanding shares
18 of class B stock of the association by the holders thereof in
19 person or by proxy; and for this purpose holders of class A
20 stock (other than the Governor of the Farm Credit Ad-
21 ministration) and holders of class B stock shall be entitled
22 to one vote for each share of stock held by them. Payments
23 for such stock purchased by the Governor shall be made out
24 of the revolving fund created by section 5 (a) of the Farm
25 Credit Act of 1933, as amended, and the proceeds from the

1 retirement of any such stock shall be paid into such revolving
2 fund.”

3 SEC. 108. Section 601 of the Department of Agriculture
4 Organic Act of 1944, as amended, is hereby amended (1)
5 by striking from subsection (a) the words “production
6 credit corporations,” wherever they appear therein, and
7 the word “corporations,”; (2) by striking from subsection
8 (b) the words “the Federal intermediate credit banks, and
9 the production credit corporations” and substituting in lieu
10 thereof the words “and the Federal intermediate credit
11 banks”; and (3) by striking from subsections (b) and (c)
12 the words “and corporation”, “and corporations”, and “cor-
13 poration,” wherever they appear therein.

14 SEC. 109. Sections 658 and 1014 of title 18, United
15 States Code, are hereby amended by striking from each
16 such section the words “or in which a production credit
17 corporation holds stock”.

18 TITLE II—MISCELLANEOUS PROVISIONS

19 SEC. 201. (a) The Government Corporation Control
20 Act, as amended, is amended (1) by striking from section
21 101 the words “Federal Intermediate Credit Banks; Pro-
22 duction Credit Corporations,”; (2) by inserting in section
23 201 immediately following “(3)” the words “Federal Inter-
24 mediate Credit Banks, (4)”;

(3) by changing “(4)” in

1 section 201 to “(5)”; and (4) by striking from sections
2 302 and 303 the words “production credit corporations,”.

3 (b) After the effective date of this Act, the Federal
4 intermediate credit banks may utilize their funds for ad-
5 ministrative expenses without regard to the limitations con-
6 tained in any other Act of Congress governing the expendi-
7 ture of appropriated funds.

8 (c) Paragraph Seventh of section 5136 of the Revised
9 Statutes as amended, is amended (1) by inserting in next
10 to the last sentence immediately before the words “Federal
11 Home Loan Banks”, the words “thirteen banks for coopera-
12 tives or any of them or the”; and (2) by changing the last
13 sentence to read as follows: “The limitations and restrictions
14 herein contained as to dealing in and underwriting invest-
15 ment securities shall not apply to obligations issued by the
16 International Bank for Reconstruction and Development
17 which are at the time eligible for purchase by a national bank
18 for its own account: *Provided*, That no association shall
19 hold obligations issued by said bank as a result of under-
20 writing, dealing, or purchasing for its own account (and for
21 this purpose obligations as to which it is under commitment
22 shall be deemed to be held by it) in a total amount exceed-
23 ing at any one time 10 per centum of its capital stock ac-
24 tually paid in and unimpaired and 10 per centum of its
25 unimpaired surplus fund.”

1 SEC. 202. (a) This Act shall become effective on Jan-
2 uary 1 next following its enactment.

3 (b) For purposes of applying the amendment in sec-
4 tion 103 of this Act, that part of the fiscal year 1957 pre-
5 ceding the effective date of this Act shall be deemed to be a
6 separate fiscal year.

7 SEC. 203. (a) If any provision of this Act, or the ap-
8 plication thereof to any person or circumstance, is held
9 invalid, the remainder of the Act, and the application of such
10 provisions to other persons or circumstances, shall not be
11 affected thereby.

12 (b) The right to alter, amend, or repeal this Act is
13 hereby expressly reserved.

Passed the House of Representatives May 31, 1956.

Attest:

RALPH R. ROBERTS,

Clerk.

Calendar No. 2168

84TH CONGRESS
2^D Session

H. R. 10285

[Report No. 2145]

AN ACT

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

JUNE 4, 1956

Read twice and referred to the Committee on
Agriculture and Forestry

JUNE 6 (legislative day, JUNE 4), 1956

Reported with amendments

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 13, 1956
For actions of July 12, 1956
84th-2nd, No. 118

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HIGHLIGHTS: Senate passed bill to amend Bankhead-Jones Farm Tenant Act. Senate passed Intermediate Credit Banks bill. Senate committee reported area assistance bill. Senate agreed to resolution extending study of employee security program. Senate committee ordered reported water rights settlement bill. House passed supplemental appropriation bill. House Rules Committee cleared Public Law 480 authorization increase bill. Rep. Saylor discussed his bill on wilderness preservation. House committee ordered reported point-of-order bill and flood insurance bill.

HOUSE

1. APPROPRIATIONS. Passed with amendments H. R. 12138, the supplemental appropriation bill for 1957, having previously defeated a motion to recommit by a vote of 370 to 24. pp. 11350, 11355 (For items of interest to this Department, see Digests No. 113 and 114.)

The Agriculture Committee ordered reported H. R. 11682, to authorize certain point-of-order items now carried in USDA appropriation bills relative to the control and eradication of certain animal diseases, to facilitate the carrying out of agricultural conservation and related agricultural programs, to facilitate the agricultural attache program, and to facilitate the operations of FHA, FCIC, and FS. p. D788

2. FOREIGN TRADE. The Rules Committee reported a resolution for consideration of H. R. 11708, to amend the Agricultural Trade Development and Assistance Act of 1954, as amended, (Public Law 480, 83rd Congress), so as to increase from \$1,500,000,000 to \$3,000,000,000 the amount for purposes of title I of the Act, to authorize assistance to American-sponsored schools abroad, and to amend the provision against agreements with communist-dominated countries. p. 11397

Passed as reported H. R. 9396, to amend the Tariff Act of 1930, so as to place guar seed on the free list. p. 11398

3. FLOOD INSURANCE. The Banking and Currency Committee ordered reported S. 3732, to provide insurance against flood damage. p. D789
4. RECLAMATION. Agreed to the conference report on S. 1622, to authorize the Secretary of the Interior to make payment for certain improvements located on public lands in the Rapid Valley unit, S. Dak., of the Missouri River Basin project. p. 11404
5. NATURAL RESOURCES. Rep. Saylor spoke in support of his bill H. R. 11703, to establish a National Wilderness Preservation system. p. 11413
6. PERSONNEL. The Foreign Affairs Committee reported with amendment S. 3481, to increase the salaries and provide other benefits for employees in the Foreign Service (H. Rept. 2696). p. 11424
7. ATOMIC ENERGY. The Joint Committee on Atomic Energy reported the following bills:
p. 11424
H. R. 9743, with amendment, to encourage maximum development of atomic energy reactors for the generation of low-cost electric power, and the production, utilization, and treatment of special nuclear and other materials (H. Rept. 2694).
H. R. 12215, without amendment, to amend the Atomic Energy Act of 1954, as amended (H. Rept. 2695).

SENATE

8. FARM LOANS. Passed with amendments H. R. 11544, to improve and simplify the credit facilities available to farmers, and to amend the Bankhead-Jones Farm Tenant Act. Agreed to an amendment by Sen. Stennis authorizing insurance on loans in amounts not exceeding \$15,000 per farm for the construction, improvement, repair, or replacement of farm dwellings and other buildings on farms the operation of which requires no more than 3 farm families or 3 farm dwellings. Rejected an amendment by Sen. Humphrey to authorize loans at a "reasonable" rate of interest, rather than not exceeding 5% per annum as provided in the bill. Substituted the language of S. 3429, a similar bill, for the text of the House bill. Conferees were appointed. pp. 11322, 11326
9. FARM CREDIT. Passed with amendments H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. Agreed to an amendments by Sen. Barrett providing for the gradual transfer over a 3-year period of the capital funds of the banks involved; and by Sen. Holland to continue Government budgetary supervision over the banks until the farmers had actually bought and paid for 15 percent of the capital stock. p. 11318
10. LIVESTOCK. Sen. Langer inserted a resolution of the N. Dak. Stockmen's Assoc. relating to various aspects of the livestock industry. p. 11238
11. AREA ASSISTANCE. The Labor and Public Welfare Committee reported with amendments S. 2663, to establish an effective program to alleviate conditions of excessive unemployment in certain economically depressed areas (S. Rept. 2555). p. 11241
12. EMPLOYEE SECURITY. Agreed to S. Res. 294, extending further the time for a study of the Government employees security program. p. 11257

Mr. JOHNSON of Texas. Mr. President, I move that the Senate reconsider the vote by which the bill was passed.

Mr. KNOWLAND. Mr. President, I move to lay that motion on the table.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from California to lay on the table the motion of the Senator from Texas.

The motion to lay on the table was agreed to.

MODIFICATION OF UNANIMOUS- CONSENT AGREEMENT

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the unanimous-consent agreement entered earlier in the day be modified so as to eliminate the provisions pertaining to the Fryingpan-Arkansas project, in view of the fact that action has already been concluded on that project.

The PRESIDING OFFICER. Without objection, it is so ordered.

UTE INDIANS OF THE UINTAH AND OURAY RESERVATION IN UTAH

Mr. JOHNSON of Texas. Mr. President, I move that the Senate proceed to the consideration of Calendar No. 2456, Senate bill 3779, and I call the attention of the senior Senator from Utah to the motion.

The PRESIDING OFFICER. The bill will be stated by title, for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 3779) amending the act of August 27, 1954 (68 Stat. 868), with respect to the Uintah and Ouray Reservation in Utah.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Texas.

The motion was agreed to; and the Senate proceeded to consider the bill.

Mr. WATKINS. Mr. President, this measure is required by reason of the interpretations of an act passed a number of years ago, providing for the termination of the Government wardship of the Ute Indians in Utah. The original act divided them into two groups, full-blood Indians and Indians of less than full blood.

In carrying out the terms of that act, it was found necessary to have some clarifications made of the original act, and this bill has that purpose.

The act of August 27, 1954, provided for the partition and distribution of the assets of the Ute Indian Tribe of the Uintah and Ouray Reservation in Utah between the mixed-blood and full-blood members thereof, and for the termination of Federal supervision over the property of the mixed-blood members of the same tribe. It also provided for a development program for the full-blood members of the tribe.

It was intended that after the mixed-blood members had been separated from the tribe and proper distribution made of the tribal property the full-blood members would continue the tribal government under the constitution, bylaws, and charter previously adopted by the

tribe pursuant to the Indian Reorganization Act of June 18, 1934.

On September 6, 1955, the Solicitor of the Department of the Interior in an opinion (M-36304) held that the determination of the full-blood membership of the tribe for the purpose of participating in the development program provided for in section 24 of the act of August 27, 1954, is controlled by the provisions of said act and not by the constitution and bylaws of the Ute Indian Tribe.

The opinion of the Solicitor was not in accordance with the understanding of the Ute Indians.

Therefore, it was necessary to change the law to conform to the constitution and bylaws of the Ute Indians.

Section 1 and section 2 of the bill amend the 1954 act in 2 places to make it clear that after the membership rolls of the mixed-blood and the fullblood groups have been prepared the fullblood roll will not be a closed one but will be subject to additions and deletions, for all purposes except the division of assets between the 2 groups, in accordance with the constitution of the tribe. Deceased fullblood members will have no inheritable interest in the tribal property, and newborn children will be added to the roll in their own right. This is the result that was originally intended by the act, because the fullblood group is not yet subject to a termination program, and until that time comes its roll should not be closed.

Section 3 of the bill exempts from corporate income taxes any corporation that may be organized by the mixed-blood group for the purpose of aiding in the joint management with the tribe and in the distribution of the undivided assets of the tribe. The present act provides that the initial distribution of tribal assets—except interest earned on funds in the United States Treasury—to the members of the mixed-blood group shall not be subject to income taxes. This is proper because the distribution represents an original tribal capital asset. Certain tribal assets are not subject to division between the 2 groups, however, and the act provides that they shall remain in the undivided joint ownership of the 2 groups. In order to relieve the Government of the onerous obligation of distributing the income from this undivided property to the individual members of the mixed-blood group and their heirs and devisees, who may soon become numerous, the mixed-blood group proposes to organize a stock corporation for the sole purpose of holding the interests of the individual mixed-blood Indians in the undivided assets and distributing the income received. The corporation thus represents merely an interim step pending the ultimate division of the undivided assets. Inasmuch as the ultimate division and distribution of those assets will not be subject to income tax, we believe that it is proper to exempt the interim corporation that will be organized principally for the convenience of the Government from corporate income taxes.

I read now from page 2 of the report:

In granting exemption from the Federal income tax to the corporation established under this bill, it is intended only to preserve the tax-exempt status of the distributions from the trust funds held by the United States Government on the principle that the corporation would merely act as a conduit for the transmission of funds received from the Government as to the members of mixedblood group.

It is anticipated that the corporation will distribute the funds as nearly currently as is possible and that it will not be used as a vehicle for the accumulation of further earnings or to give tax exemption to other forms of income.

Mr. President, the report on the bill also contains a letter from the Department of the Interior, indicating its approval of the bill; and approval of the bill by the Bureau of the Budget and by the Treasury Department is also indicated in the report.

I urge that the bill be passed.

The PRESIDING OFFICER (Mr. LAIRD in the chair). The bill is open to amendment.

If there be no amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill (S. 3779) was ordered to be engrossed for a third reading, read the third time, and passed, as follows:

Be it enacted etc., That section 5 of the act of August 27, 1954 (68 Stat. 868), is amended by adding at the end thereof the following sentence: "New membership in the tribe shall thereafter be controlled and determined by the constitution and bylaws of the tribe and ordinances enacted thereunder."

SEC. 2. Section 8 of said act of August 27, 1954, is amended by changing the period at the end thereof to a comma and by adding the following: "but this act shall not be construed as granting any inheritable interest in tribal assets to full-blood members of the tribe or as preventing future membership in the tribe, after the date of enactment of this act, in the manner provided in the constitution and bylaws of the tribe."

SEC. 3. Section 17 of said act of August 27, 1954, is amended as follows: After "except that" delete the word "any" and insert in lieu thereof: "any corporation organized by the mixed-blood members for the purpose of aiding in the joint management with the tribe and in the distribution of unadjudicated or unliquidated claims against the United States, all gas, oil and mineral rights of every kind, and all other assets not susceptible to equitable and practicable distribution shall not be subject to corporate income taxes. Any".

Mr. WATKINS. Mr. President, I thank the distinguished majority leader, the senior Senator from Texas [Mr. JOHNSON], for his courtesy in allowing the bill to be considered and acted on at this time.

Mr. JOHNSON of Texas. Mr. President, I thank the Senator from Utah for his usual cooperative attitude.

CERTIFICATION FOR CERTAIN AIR CARRIERS OPERATING IN HAWAII AND ALASKA

The PRESIDING OFFICER laid before the Senate the amendment of the House of Representatives to the bill (S. 3163) to amend section 401 (e) of the Civil Aeronautics Act of 1938 in order to

authorize permanent certification for certain air carriers operating in Hawaii and Alaska, which was on page 1 line 9, after "it" insert "or its predecessor in interest".

Mr. MONRONEY. Mr. President, I move that the Senate concur in the amendment of the House of Representatives.

The amendment is a very slight perfecting one, to take care of a particular situation in which one of the local carriers in Alaska is in process of selling a route to another carrier. That is the only matter that would be affected by the House amendment.

The Senate Committee on Interstate and Foreign Commerce has considered the House action, and has agreed unanimously that the House amendment is a good one, and should be adopted.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Oklahoma.

The motion was agreed to.

MERGER OF PRODUCTION CREDIT CORPORATIONS

Mr. JOHNSON of Texas. Mr. President, I move that the Senate proceed to the consideration of Calendar No. 2168, House bill 10285.

The PRESIDING OFFICER. The bill will be stated by title, for the information of the Senate.

The CHIEF CLERK. A bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, to provide for supervision of production credit associations, and for other purposes.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Texas.

The motion was agreed to; and the Senate proceeded to consider the bill, which had been reported from the Committee on Agriculture and Forestry with amendments.

Mr. HOLLAND. Mr. President, this is the Farm Credit Administration bill to merge Production Credit Corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations, and for other purposes.

The Senator from Mississippi [Mr. STENNIS] indicated that he probably would have some suggestion for amendment of S. 3429, but not of this one.

Mr. STENNIS. That is correct. At this time I merely wish to ask some questions.

Mr. HOLLAND. Mr. President, I would like to insert in the RECORD at this point a brief explanation of this bill and the committee amendments to it. I ask unanimous consent for such insertion.

There being no objection, the explanation was ordered to be printed in the RECORD, as follows:

SUMMARY OF H. R. 10285

The bill provides for the merger of the production credit corporation in the Federal

intermediate credit bank in each of the 12 farm credit districts. The merged institution would still be known as the "Federal intermediate credit bank." The Government capital in the credit banks would then be retired over a period of years and the banks would thus become wholly owned by the production credit associations which are now largely farmer owned.

With minor exceptions, all assets, liabilities, and functions of the production credit corporations would be transferred to the credit banks on the effective date of the legislation. The banks would be required to provide the production credit associations with essentially the same kind of supervision and service now furnished by the production credit corporations.

The credit banks would issue two new classes of stock. Class A stock would be owned solely by the United States and would be substituted for the existing stock of the credit banks and production credit corporations, all of which is owned by the United States. Class B stock of the banks would be owned solely by the production credit associations and would be acquired by a specified initial purchase and by subsequent distributions of earnings of the banks as patronage refunds in the form of class B stock. Class A stock would be retired partly from funds derived from the initial sale of class B stock and, over a period of years, the balance would be retired from net earnings of the banks.

The bill provides a new method of distribution of earnings of the banks. After reserves, franchise taxes (same tax provision applies to land banks and banks for cooperatives), and dividends when applicable, net earnings would be distributed as patronage refunds in class B stock to production credit associations and an in participation certificates to other patrons of the banks.

The surplus and reserves of the banks on hand on the effective date of the new legislation would not be allocated and could not be paid out as patronage refunds. Upon liquidation, any such surplus and reserves remaining would be distributed to the holders of class A stock and class B stock pro rata (after the financing institutions, other than production credit associations, borrowing from the banks on the effective date of the act had participated to the extent that they had contributed to such surplus and reserves).

The bill contains a number of other amendments to existing law which, for the most part, are made necessary by the merger.

The committee amendments would have the effect of limiting the increase in the revolving fund available for capitalization of the Federal intermediate credit banks from \$40 million to \$70 million. As passed by the House, the bill would have increased this revolving fund to \$100 million. Under the bill as thus amended the aggregate amount of the two revolving funds for the capitalization of the Federal intermediate credit banks and the production credit associations would be held at the present level of \$130 million (now \$40 million for Federal intermediate credit banks and \$90 million for production credit). The Bureau of the Budget had questioned the need for an aggregate increase in these funds and your subcommittee, agreeing with the Bureau of the Budget, is of the opinion that the amounts provided in the amended bill are entirely adequate to meet the present and foreseeable credit needs of these farm credit institutions.

Mr. HOLLAND. Mr. President, in 1953 Congress passed the Farm Credit Administration Act of 1953. By means of that act, a completely new setup of the Farm Credit Administration was accomplished. A board of 13 directors was created, 12 of whom would come from the Farm

Credit districts of the Nation—one from each of the 12 districts—and the 13th director would be named by the Secretary of Agriculture. The purpose of the bill was to accomplish as speedily as possible farmer ownership and control of the entire Farm Credit Administration.

The Senate will remember that before appointing the 12 members of the board who represent the 12 respective districts, the President received nominations from each of the three groups of local units in each district. So the President had considerable choice in making the appointments.

The President cooperated very fully with the program, by naming, from the nominees of the various Farm Credit Administration organizations, 12 of the directors, 1 from each of the districts. The Secretary of Agriculture named the 13th director.

In the 1953 act which accomplished that reorganization of the Farm Credit Administration, the Congress directed the new board to work out as speedily as possible a program whereby farmer ownership and operation of each of the district institutions would be accomplished. The Senate will recall that the land banks in the various districts have been entirely farmer-owned since about 1947. They were the first ones to go entirely under farmer operation.

Last year—in 1955—the directors reported to the Congress a plan and program for accomplishing farmer ownership and operation of all the remaining portions of the Farm Credit Administration system. Congress checked very carefully on that 1955 recommendation, and accepted the part which pertained to the banks for cooperatives, but did not accept the part pertaining to the Federal intermediate credit banks and the Production Credit Corporations. The Board of the Farm Credit Administration was directed to restudy the situation and to bring back a program this year for those organizations, and was also directed to carry the proposed program to the farm people of the country, by holding meetings in each of the districts and publicizing them, so that the farmer sentiment could be secured.

The Farm Credit Administration, after going through a long program of discussion and development of suggestions, came back to Congress this year, 1956, with the program which is embodied in the pending bill.

That program is to unite the Federal intermediate credit banks and the production credit corporations in each district into a single corporation and requires that 15 percent of the capital stock of the single new corporation shall immediately be subscribed by the production credit associations throughout the country, most of which have in the meantime become completely farmer owned and operated.

I am happy to report to the Senate that, after a great deal of discussion, the bill as now reported, has been worked out on a basis which seems to be acceptable to all concerned, except that the Bureau of the Budget still has certain reservations, which I hope will be re-

moved by one of the amendments which we plan to offer today.

Mr. JOHNSON of Texas. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. JOHNSON of Texas. Does the Senator anticipate any yea-and-nay votes on any of the amendments, or on the passage of the bill?

Mr. HOLLAND. I do not. I shall not ask for any. So far as the amendments which have been mentioned are concerned, the Senator from Florida is agreeable to them. He will offer one of them himself. Another will be offered by the Senator from Wyoming [Mr. BARRETT], for himself and other Senators, and has been agreed to by the committee and by the Directors of the Farm Credit Administration, and, so far as I know, there will be no occasion for any debate concerning it. I believe the amendments and the bill can be disposed of without a yea-and-nay vote.

Mr. JOHNSON of Texas. Does the same situation prevail with respect to the other agricultural bill which the Senator spoke to me about?

Mr. HOLLAND. The other bill involves no point at issue at all, except that my friend the distinguished junior Senator from Minnesota [Mr. HUMPHREY] had one reservation, which he covered by his separate statement incorporated in the committee report. I do not know whether he intends to offer an amendment.

Mr. JOHNSON of Texas. So far as the Senator from Florida is aware, there will be no yea-and-nay votes?

Mr. HOLLAND. So far as I know, there will be no yea-and-nay votes. However, on that point, I cannot control the situation, because the Senator from Minnesota may have a completely different idea. He may wish to have a yea-and-nay vote on his amendment.

Mr. STENNIS. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. STENNIS. I wish to inform the Senator from Florida and the majority leader that I have an amendment to offer, which I hope the chairman of the subcommittee will be disposed to take to conference. I shall not ask for a record vote on my amendment, however.

Mr. HOLLAND. I think the Senator from Mississippi is addressing his present remarks to the second bill, which will come up later.

Mr. STENNIS. That is correct.

Mr. JOHNSON of Texas. May I inquire if the Senator from Minnesota wishes a yea-and-nay vote on his amendment?

Mr. HUMPHREY of Minnesota. I have no amendment to offer on this particular bill.

Mr. JOHNSON of Texas. Several Senators have inquired whether or not there is likely to be a yea-and-nay vote. The Senator from Florida says that the Senator from Minnesota has an amendment. I am asking the Senator from Minnesota if he anticipates asking for the yeas and nays on his amendment.

Mr. HUMPHREY of Minnesota. No; I do not.

Mr. SCHOEPPPEL. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. SCHOEPPPEL. I should like to ask the distinguished Senator from Florida how many amendments he intends to offer on behalf of the committee before the bill will be open to amendments from the floor.

Mr. HOLLAND. The Senator from Florida was about to request unanimous consent of the Senate to have all the reported committee amendments agreed to, and have the resulting text regarded as original text, for purposes of amendment, to which the amendments referred to, or any other amendments any Senator wishes to offer, may be offered.

Mr. President, I ask unanimous consent that the committee amendments be agreed to en bloc, and that the text of the bill, as thus amended, be regarded as original text for the purpose of amendment.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The amendments agreed to en bloc are as follows:

On page 5, line 22, after the word "to", to insert "\$30,000,000 plus"; on page 8, line 11, after the word "at", to strike out "a"; and on page 17, line 17, after the word "to", to strike out "\$1,000,000,000" and insert "\$70,000,000."

Mr. SCHOEPPPEL. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. SCHOEPPPEL. I should like to ask if the approval of the committee amendments will preclude the offering of an amendment in which the Senator from Kansas is interested. It is designated as "6-27-56-B."

The PRESIDING OFFICER. It will not.

The bill is open to amendment.

Mr. BARRETT. Mr. President, on behalf of the junior Senator from Iowa [Mr. MARTIN], the senior Senator from Iowa [HICKENLOOPER], the Senator from Nebraska [Mr. HRUSKA], and myself, I offer the amendment which I send to the desk and ask to have stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Wyoming will be stated.

The CHIEF CLERK. On page 4, beginning after the period in line 21 it is proposed to strike out over through the period in line 3 on page 5 and insert in lieu thereof the following:

Stock of each Federal intermediate credit bank held by the Secretary of the Treasury shall be transferred to the Governor who shall exchange such stock for an equal amount of class A stock of such bank. The Governor is authorized thereupon to reallocate the investment of the United States in such banks in such manner as he determines necessary to meet the needs of the respective banks. Any transfers of capital funds required as a result of such reallocation shall be made in four equal installments, the first of which shall be made on January 1, 1957, and one of which shall be made on the first day of each of the next succeeding 3 calendar years. Upon each such transfer of capital funds the Governor shall require an appropriate adjustment in the class A stock of each such bank.

Mr. BARRETT. Mr. President, let me make a brief explanation of my amendment.

Section 102 of this bill would authorize the Farm Credit Administration to re-allocate the present capital stock of the Federal intermediate credit banks, all of which is owned by the United States. Under the plan proposed to be followed by the Farm Credit Administration, a portion of the capital in some of the banks would be transferred to other banks in order to put all banks on an equitable basis in relation to their volume of business. However, in order to minimize the effect upon the banks from which the capital will be transferred, this amendment would provide for the gradual transfer of the funds over a period of 3 years. This amendment would soften the effects of the transfer and give the banks which are losing capital time to adjust to the new capital base. Also, the amendment would not work a hardship upon any of the banks which need additional capital to support their volume of business.

I have discussed this amendment with the senior Senator from Florida [Mr. HOLLAND], and I hope he will accept the amendment and take it to conference.

Mr. HOLLAND. Mr. President, let me state first for the RECORD just what the situation is that calls for this particular amendment. Up to this time the Federal Government has had \$5 million invested in the capital structure of each of the 12 banks.

There will not be required by the new institutions an equal amount of capitalization, because the volume of business in some of those banks is much greater than it is in others. So the proposed legislation, which has been discussed throughout the country and agreed upon generally, provides that the \$5 million for each of the 12 banks, or \$60 million in all, shall be redistributed by the Governor of the Farm Credit Administration among the 12 new institutions in proportion to their needs, or in proportion to their volume of business.

Some of the new institutions will be quite small from the standpoint of volume of business, and they will have to take a considerable reduction from the \$5 million capital investment now in effect. They felt that it would be a hardship on them to have that redistribution accomplished at once, that is, on January 1, 1957. So the Senator from Wyoming and other Senators from similarly affected areas have brought up the question of postponement or gradualization of the redistribution of the invested capital of the United States Government over a period of 3 years, and in 4 payments, 1 distribution to be accomplished January 1, 1957; another in 1958; another in 1959; and the fourth in 1960.

The subject has been discussed at length with the directors of the Farm Credit Administration, and with all others concerned, and an agreement has been reached. This amendment would accomplish a gradual redistribution of the government capital in a way much fairer to the smaller institutions than would be an immediate redistribution.

I am advised by the Directors of the Farm Credit Administration, who have just left Washington after having been

in the city for several days, that they agree to this change, which, after all, is not a change in principle, or in ultimate result. It simply stretches out over 4 payments the redistribution of the invested capital of the Government among the 12 institutions. I am agreeable to accepting the amendment, because it has been agreed to by the Farm Credit Administration.

Mr. BARRETT. I thank the Senator from Florida. I may say to him that I have been in consultation with Mr. Tootell, the Governor of the Farm Credit Administration. I am sure that the amendment will not be objected to. I may say that I made inquiry of the Farm Credit Administration, and they have confirmed the facts as outlined by the distinguished Senator from Florida. As I understand, about half of the 12 districts will receive reductions in their capital, and the other half will receive additions to their capital. Therefore, as a result, after a period of 3 years from next January, about half of the districts will have capital amounting roughly to \$7½ million, and the other 6 districts will have their capital reduced to \$2½ million. The Senator has agreed to accept the amendment, which will lead to a gradual reduction, and I do not believe that anyone will be particularly harmed by transferring capital from one district to another.

Mr. HOLLAND. I certainly hope that no one will be harmed, and I believe that will be the case. To the contrary, I believe that the smaller institutions will be benefited in the long run by the redistribution, because otherwise they would find it very burdensome to pay off the Government capital out of their small volume of business. The Senator knows that all of the Government capital must be retired before the purpose of the bill is finally accomplished.

Mr. BARRETT. That is correct.

Mr. HOLLAND. If the small institutions were left saddled with very heavy Government capital investments, they would take proportionately very much longer in paying back the Government capital.

The redistribution, therefore, really leaves new banks relatively equal burdens to carry in accordance with the volume of business they have.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. HOLLAND. I am glad to yield to the Senator from North Dakota.

Mr. LANGER. Can the Senator tell me whether the committee was unanimous in reporting the bill?

Mr. HOLLAND. The committee was unanimous in reporting the bill.

Mr. LANGER. Is that true also of the second bill?

Mr. HOLLAND. That is true of the second bill also, although my distinguished friend the Senator from Minnesota [Mr. HUMPHREY] filed supplemental views, without withdrawing his approval of the bill. I believe that is correct.

Mr. HUMPHREY of Minnesota. That is correct. I supported the bill. However, there are two amendments which I felt I should offer to the bill, and which I believe will be helpful. However, I felt that the objectives of the bill were so

worthy that I could not do anything but support the bill.

Mr. HOLLAND. Mr. President, the bill passed the House by virtually a unanimous vote. I believe only three votes were cast against the bill out of the entire membership of the House. Therefore the program seems to have worked out with almost universal acceptance and accord.

Mr. STENNIS. Will the Senator yield?

Mr. HOLLAND. I yield.

Mr. STENNIS. Mr. President, first I wish to thank the Senator from Florida and the other members of the subcommittee for the work they have done on this important measure. It is proposed legislation of a kind that is very important to the agricultural areas of the Nation.

I remember when the Farm Credit System was first established. At that time I was connected in a small way with a small-town bank. I was rather skeptical about the program and about what it would accomplish.

However, I have been highly gratified over the years to note the splendid work which has been done by the farm-credit agencies. I now look with a great deal of caution on any proposed change in the law. In the beginning I was inclined to oppose this bill. However, the Senator from Florida and other Senators have talked to me at great length about the various provisions of the bill. They have studied it and they have stated with such unanimity that it is a sound measure that I am willing to go along with it.

I wish to ask the Senator very briefly a few questions to make certain that I understand the purposes of the bill.

I understand that the proposed act will not directly affect the local production credit associations in any way, except that it will permit them to purchase stocks in the intermediate credit banks, and, therefore, eventually give the production credit associations and their farmer members ownership and control of the Federal intermediate credit banks. Is that correct?

Mr. HOLLAND. The Senator is correct. The stock of the new institutions brought about by the merging of the intermediate credit banks and the production credit corporations will be owned entirely by the production credit associations, which are composed of farmers, as the Senator knows.

Mr. STENNIS. Mr. President, I should like to ask one further question.

Mr. HOLLAND. May I elaborate?

Mr. STENNIS. I wish the Senator would.

Mr. HOLLAND. No function is destroyed. The new institution, which combines the two presently existing institutions, will have all the powers and all the functions of the two institutions that now exist. They will be able to save substantially in reduced overhead costs. They will not have to have two presidents and two other high officials on every level, but, instead, they will have only one.

Mr. STENNIS. I believe we should be certain that the proposed legislation will

not adversely affect the supervision and assistance which the production credit associations and farmer members now receive from the production credit corporations, and that they will still have access to the revolving funds to supplement needed capital when necessary. Will the Senator from Florida comment on that?

Mr. HOLLAND. They will have access to the revolving fund. It is specifically provided in the proposed act that as the Government's capital is retired by purchase by the production credit associations, after the Government has received back its investment in the production credit corporations and \$30 million of its investment in the credit banks, the balance will go into the revolving fund, which remains permanently available for the purchase of stock in the customary way in the event the new bank gets into difficulties.

Mr. STENNIS. The House-passed bill provided for a \$100 million revolving fund. As I understand, the committee amendment reduces that amount to \$70 million. Is that correct?

Mr. HOLLAND. That is correct. We did that because we wanted to keep it at the present level. We felt that since the purpose of the bill is to provide for the retirement of Government capital we should not increase the revolving fund.

We are asking the Government to yield its right to \$62 million worth of surplus, and that yielding is accomplished by the bill. We are asking the Government to yield in other respects, because of its interest in getting the ownership and operation of this concern out of the Government and into the hands of the people who are being served by it.

However, we did not feel that we would be justified in asking the Government to earmark additional funds for possible reinvestment as would have been accomplished if the revolving fund had been made \$160 million, instead of \$130 million, as it is under the pending bill.

Mr. STENNIS. I should like to ask another question. In the interest of hedging against the time when these agencies might need larger revolving funds for shoring up their resources, because of increased cost of production and high capital investment required in present-day farm operations, what would be the situation with reference to meeting this need?

Mr. HOLLAND. The situation would be this: First, there would be access to the surpluses, which would still be in the hands of the banks. Second, if that were used up, there would be access to the revolving fund. If that were used up, we must not forget that the Government would still be the controlling factor, because these banks could not be liquidated without a special act of Congress permitting it. The Government keeps them under the Farm Credit Administration, which will always have the supervision of them.

The Farm Credit Administration is still this close to the Department of Agriculture, that one of its directors is always named by the Secretary of Agriculture.

Therefore, the salutary purposes of keeping these institutions in such a position will be that they will benefit from Government advice, and Government help will be maintained. The other very great benefit of having the ownership passed to the people who are affected will be conveyed by the pending bill.

I invite the Senator's attention to the fact that already the land banks are fully farmer owned and that already, by legislation which we passed last year, we have accomplished the same objective with reference to the banks for cooperatives, except that they will take a little while to finish retirement of Government capital. Already 440 of the production credit associations, which are the ones nearest home, are completely farmer owned. So, this measure will complete the objective to which Congress addressed itself in 1953 when it declared for farmer ownership, farmer control, and farmer interest, the vital interest which comes from ownership and control.

Mr. STENNIS. I thank the Senator for his fine answer. But I should like, if I may, to put my question in another way. In case there is distress to these credit agencies, the recommendations which the committee makes are based on the assumption that Congress, in light of new circumstances, could still come to their aid with additional revolving funds or such added capital, as might be necessary.

Mr. HOLLAND. The Senator is entirely correct.

Mr. STENNIS. I believe the Senator said he thought this bill, if enacted, would strengthen these associations financially; did he not?

Mr. HOLLAND. It would strengthen them financially, and also make them decidedly more economical in operation. Of that fact there can be no doubt.

I may say to the Senator that it is a very fine administration which has been going on with respect to the Federal land banks, one in each district entirely owned by the farmers and operated by them, and a fine administration which is going on in the banks for cooperatives. All those things indicate it is wise to take this last remaining step and to entrust the farmers of the United States themselves with primary responsibility for the operation of this huge credit structure which has meant so much to them and which we think will mean even more to them when they themselves are clothed with greater responsibility for administration and management.

Mr. STENNIS. Mr. President, I thank the Senator from Florida very much for his fine work and for his explanation of the bill.

I am particularly interested in the New Orleans Farm Credit District which serves the State of Mississippi. The total net worth of the Federal Intermediate Credit Bank in this district for December 31, 1956, is estimated to be \$8,148,498, and for this same time the total net worth of the Production Credit Corporation is estimated to be \$3,018,631, or a combined total net worth for the two amounting to \$11,167,129.

I understand that after the merger, on January 1, 1957, the net worth of the

Federal Intermediate Credit Bank will be increased to \$13,852,129. Mr. President, I have a table which gives a detailed breakdown of the net worth of the Production Credit Corporation and the Federal Intermediate Credit Bank in the New Orleans district and the breakdown of net worth before and after merger. I should like to have this table printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

New Orleans Farm Credit District—Estimated net worth, Dec. 31, 1956

Federal Intermediate Credit Bank:	
Capital stock.....	\$5,000,000
Earned surplus.....	3,148,498
Total net worth.....	8,148,498

Production Credit Corporation:	
Capital stock.....	2,020,000
Reserves.....	998,631
Total net worth.....	3,018,631

Estimated net worth, Federal Intermediate Credit Bank after merger, Jan. 1, 1957

Capital stock:	
From FITCB.....	\$7,685,000
From PCC.....	1,710,795

From PCA's:	
Subscription.....	927,615
Paid in 2 years.....	618,410

First payment.....	309,205
Total capital.....	9,705,000

Surplus:	
From FITCB.....	3,148,498
From PCC.....	998,631

Total surplus.....	4,147,129
Total net worth.....	13,852,129

Mr. HOLLAND. Mr. President, no Member of the Senate has been more interested in the stabilization of the situation of our farmers than has the distinguished Senator from Mississippi. I realize that he has been properly concerned about this matter, and I can say to him, from the very depths of my own conviction, that this measure is in the interest of the farmers. If I did not think so, I would not favor it.

Mr. STENNIS. I appreciate the Senator's judgment, and I thank him for his fine work.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Wyoming [Mr. BARRETT] on behalf of himself and other Senators.

The amendment was agreed to.

Mr. SCHOEPEL. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. SCHOEPEL. Mr. President, is the bill open to further amendment?

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. SCHOEPEL. Mr. President, I call up my amendment designated "6-27-56-B," and ask that it be stated.

The PRESIDING OFFICER. The amendment offered by the Senator from Kansas will be stated.

The CHIEF CLERK. On page 23, line 21, it is proposed to strike out all after "101"

down to and including line 7 on page 24, and insert in lieu thereof the following: "the words 'production credit corporations'; and from sections 302 and 303 the words 'production credit corporations.'"

Mr. SCHOEPEL. Mr. President, I wish to be perfectly frank. I have offered this amendment by reason of the position which I understand the Budget Bureau has taken with reference to certain sections of the bill.

Each of the 12 Federal intermediate credit banks is now controlled by a board of directors consisting of 5 directors elected by private farm organizations and 2 directors appointed by the Government. Twelve of the 13 members of the Farm Credit Board, which supervises the banks on behalf of the Government, are nominated by the some organizations represented on the boards controlling the banks. Boards composed largely of members appointed by and representing private interests cannot be expected to and are not fully responsive to presidential direction and control.

In view of the foregoing, budget control remains the only effective authority possessed by the President and the Congress which can be utilized to assure that the Government's substantial financial interests—\$82 million in capital investment plus large contingent liabilities—are protected and that the banks' operations are conducted efficiently and economically and in conformity with law and public policy. If this control is removed, the Government will remain responsible for the banks, but the President and the Congress will be deprived of the authority necessary to carry out this responsibility—indeed, they will lack the advance information necessary to determine what policy or other issues there may be which they might wish to act upon.

The Senate committee report justifies removal of budget control solely on the basis of the precedent of the Federal land banks and banks for cooperatives which were classified as mixed-ownership corporations and, therefore, not made subject to the budget provisions of the Government Corporation Control Act at the time it was enacted in 1945. No reference is made to the fact that when Congress enacted legislation in 1950 and 1954 to provide for retirement of Government capital in the Federal Savings and Loan Insurance Corporation and the Federal National Mortgage Association, it retained budget control over those corporations even though they had been converted to a status comparable to that of corporations classified as mixed-ownership in the Control Act. The status of the Federal intermediate credit banks, after enactment of H. R. 10285, will be much more akin to that of the Federal National Mortgage Association than the Federal land banks.

Unlike the Federal intermediate credit banks, the Federal land banks, except for the depression years, have been substantially privately capitalized institutions and retired all of the Government-owned capital stock in 1947. There would be no serious objection to the removal of budget control when and if the Federal intermediate credit banks attain the present status of the Federal land banks

which have now retired all of the Government capital.

A strong case can be made for bringing the banks for cooperatives under budget control. The Government at present owns almost 90 percent of the capital stock in these banks. The House Appropriations Committee as early as 1947 urged that the banks for cooperatives, and other similar "mixed ownership" corporations, be brought under budget control. The committee pointed out that the Government's financial stake in these corporations "is such that to leave them free of this control is to leave a segment of the Government's business interests (which could result in heavy drains on the public purse) without the close supervision by the Congress which can only be obtained through annual budget review.

Mr. President, I wish to say, quite frankly, that I am interested in this measure. In checking the membership of the Senate, I am absolutely certain that there is an overwhelming desire to pass the measure, especially in view of the fact, as I understand, that the senior Senator from Florida will offer an amendment that goes to at least a portion of the budgetary control, as he will later explain. Because of the importance of the measure—I know it is important—I ask unanimous consent to withdraw my amendment at this time.

The PRESIDING OFFICER. Without objection, the amendment offered by the Senator from Kansas is withdrawn.

Mr. HOLLAND. Mr. President, I very much appreciate the action and the attitude of the distinguished Senator from Kansas. The Director of the Budget is concerned because he felt that in striking the intermediate credit banks entirely from the budget provisions of the Government Corporation Control Act, as amended, we were moving too fast; that we were taking away the Government budgetary supervision, when the Government was still almost entirely the owner of the institutions.

The committee considered that question and discussed it with the directors of the Farm Credit Administration. We think that is a point to be considered carefully, but we think that point can better be met by an amendment which I shall submit in a moment, and which will put the action in this case, if the amendment shall be adopted, on a quite comparable basis with what was done last year with reference to the banks for cooperatives.

The Senator from Kansas will remember that last year, when legislation was passed for the bank for cooperatives, 12 percent of the stock was farmer-owned and 88 percent was Government-owned. Of course, a provision was included whereby, year after year, the Government stock would be bought by the farmer-owners.

If there should be included in the bill the amendment which I am about to propose, the operation would be in this fashion: until the farmers had actually bought and paid for 15 percent of the capital stock, the budgetary supervision of the Government now existing would be continued.

As the Senator will recall, the measure requires that in the beginning the production credit associations must subscribe for 15 percent of the capital stock, but they are given three payments in which to accomplish the purchase—1 payment to be made next January 1, 1 payment to be made January 1, 1958, and 1 payment to be made January 1, 1959.

So the amendment which has been prepared provides that until the last payment has been completed, and until 15 percent of the Government stock has been retired and has actually become farmer-owned, the present budgetary supervision of the Government will continue.

That means that whereas we took that action in the case of the bank for cooperatives when only 12 percent of the stock was privately owned, we postponed the date of elimination of Federal budgetary control in this case until 15 percent has been actually paid for in full. The committee felt that that was a fair way to deal with the situation, by reason of several facts, the main one of which was that these institutions are larger and they deal in a larger annual volume of business than do the banks for cooperatives. Therefore it was felt that to require 15 percent actual ownership, fully paid for, was comparable with the 12 percent ownership which was required in the case of bank for cooperatives.

The amendment has been approved by the directors of the Farm Credit Administration and it was approved by the committee, as the Senator will recall, the day before yesterday. I shall submit it as an amendment by myself, but with the explanation to the Senate that the committee has agreed to my offering it.

Mr. SCHOEPEL. I thank the Senator from Florida. As I indicated a while ago, I felt there should be a detailed explanation in the RECORD, pointing out some of the reasons why the Bureau of the Budget took this position.

Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator from Kansas will state it.

Mr. SCHOEPEL. Do I understand that the amendment I offered has been withdrawn?

The PRESIDING OFFICER. The Senator from Kansas withdrew his amendment, which he had a right to do.

Mr. HOLLAND. Mr. President, I now offer my amendment which I ask to have stated.

The PRESIDING OFFICER. The amendment of the Senator from Florida will be stated for the information of the Senate.

The LEGISLATIVE CLERK. On page 24, line 3, it is proposed to strike the word "act" and insert in lieu thereof the word "subsection."

On page 25, line 2, after the numeral "1", it is proposed to strike out "next following its enactment" and insert in lieu thereof "1957, except subsections (a) and (b) of section 201, which shall become effective January 1, 1959."

Mr. HOLLAND. Mr. President, I have already described the operation of the amendment. I hope it will be adopted.

The PRESIDING OFFICER. The question is on agreeing to the amendment proposed by the Senator from Florida [Mr. HOLLAND].

The amendment was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment of the amendments and the third reading of the bill.

The amendments were ordered to be engrossed and the bill to be read a third time.

The bill (H. R. 10285) was read the third time and passed.

Mr. CLEMENTS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

IMPROVEMENT OF CREDIT FACILITIES FOR FARMERS

Mr. JOHNSON of Texas. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar No. 2563, S. 3429.

The PRESIDING OFFICER. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 3429) to improve and simplify the credit facilities available to farmers, to amend the Bankhead-Jones Farm Tenant Act, and for other purposes.

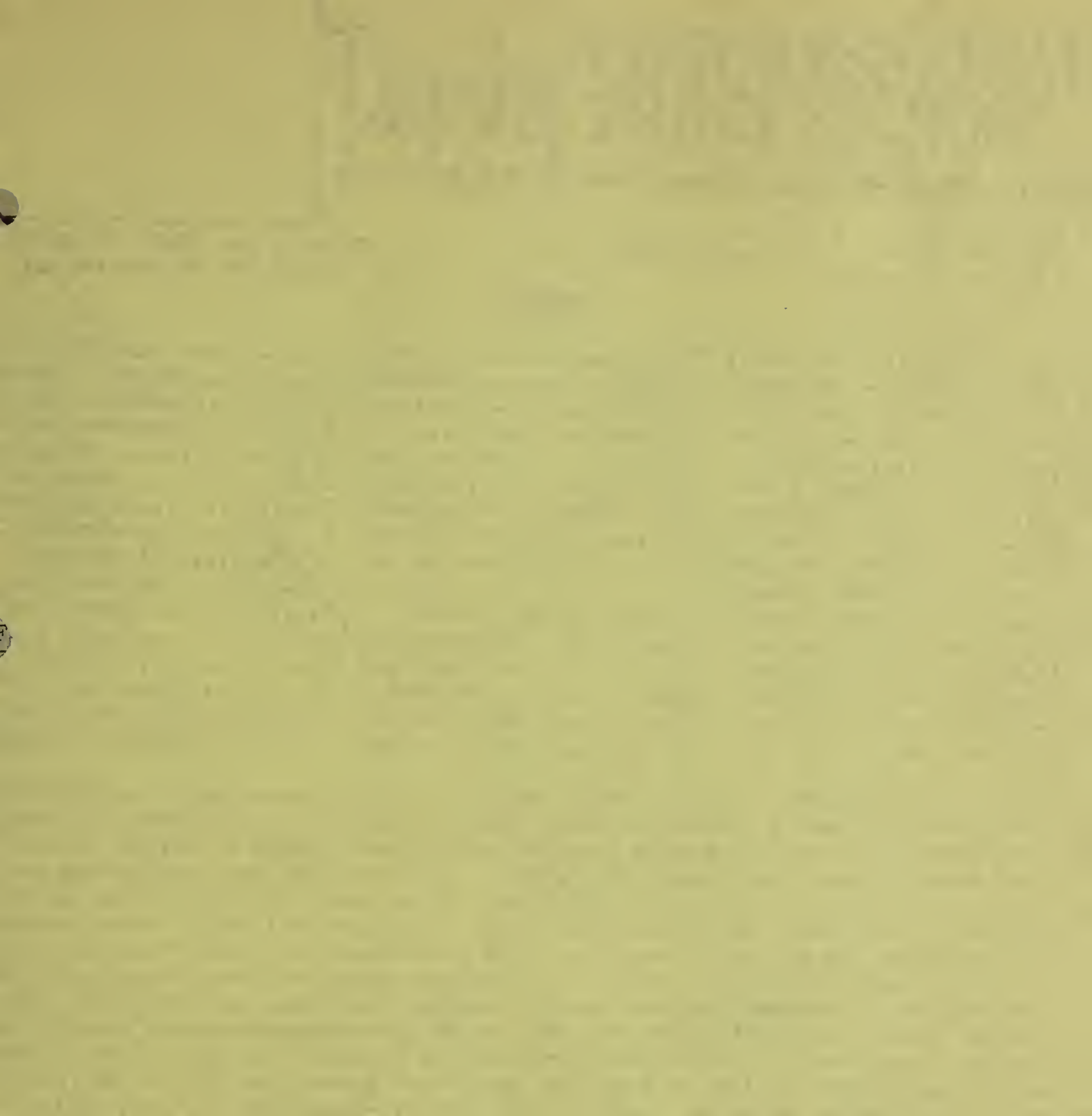
The PRESIDING OFFICER. Is there objection to the unanimous-consent request of the Senator from Texas?

There being no objection, the Senate proceeded to consider the bill which had been reported from the Committee on Agriculture and Forestry with amendments, on page 3, line 1, after the word "units", to insert "whose time is primarily devoted to operating such units, and who have historically resided on a farm and engaged in farming as their primary occupation"; on page 4, after line 3, to strike out:

(g) Section 12 (c) is amended by striking item (5) thereof and inserting in lieu thereof a new item (5) reading as follows:

"(5) Loans insured under this section shall not be in excess of the amount certified by the county committee to be the fair and reasonable value of the farm."

At the beginning of line 10, to strike out "(h)" and insert "(g)"; at the beginning of line 17, to strike out "(i)" and insert "(h)"; in line 21, after the word "of" where it appears the first time, to insert "90 per centum of"; at the beginning of line 24, to strike out "(j)" and insert "(i)"; on page 5, line 3, after the word "farmers", to insert "on farms of not more than family size"; in line 8, after the word "fulfill", to insert "No such loans shall be made to an appli-





Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(For Department Staff Only)

Issued July 17, 1956
For actions of July 16, 1956
84th-2nd, No. 120

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HIGHLIGHTS: House passed bills to: Permit USDA-State-local employee exchanges; authorize acquisition of additional lands in Cache National Forest; approve Middle Atlantic interstate forest fire compact; release certain Tongass Forest receipts from escrow; continue ACP authority; authorize transfer of certain ARS lands in Alaska; extend time for report on Government security program. House received conference report on bill to simplify accounting procedures and facilitate payment of obligations; House committee reported bill to improve budgeting and accounting methods. House agreed to Senate amendments to bill to merge intermediate credit banks and production credit associations. House received President's veto message on military construction measure. House committee reported bill to include cranberries for canning and freezing in Marketing Agreements Act. House committee reported bill to require conformance with State game laws on certain Federal lands. House committee reported USDA point-of-order bill. Sen. Ellender introduced bill to imple- (continued on page 7)

HOUSE

1. APPROPRIATIONS. The Agriculture Committee reported with amendment H. R. 11682, to facilitate the control and eradication of certain animal diseases, to facilitate the carrying out of agricultural and related programs, to facilitate the agricultural attache program, and to facilitate the operations of FHA, FCIC, and FS (H. Rept. 2732). p. 11795
2. PERSONNEL. Passed as reported S. 1915, to permit the exchange of employees of this Department and employees of State political subdivisions or educational institutions for a period not to exceed 2 years in duration. p. 11720
3. FORESTRY. Passed as reported H. R. 8898, to authorize the purchase of additional lands within the Cache National Forest, Utah. p. 11721

Passed without amendment S. 3032, to approve the Middle Atlantic Interstate Forest Fire Compact. This bill is now ready for the President. p. 11726

Passed without amendment S. 2517, to provide for the release of certain Tongass National Forest timber receipts from escrow. This bill is now ready for the President. p. 11731

4. SOIL CONSERVATION. Passed without amendment S. 3120, to further extend the period of Federal administration of the ACP program from Jan. 1, 1957 to Jan. 1, 1959. This bill is ready for the President. A similar bill, H. R. 8321, was laid on the table. p. 11731
5. LAND TRANSFER. Passed without amendment S. 3344, to authorize the transfer of the Baranof Castle site (former research land) to the city of Sitka, Alaska. This bill is now ready for the President. A similar bill, H. R. 9678, was laid on the table. p. 11731
6. GOVERNMENT SECURITY. Passed without amendment S. J. Res. 182, to extend (until June 30, 1957) the time limit for the filing of a final report of the Commission on Government Security. This measure is now ready for the President. A similar measure, H. J. Res. 655, was laid on the table. p. 11733
7. ACCOUNTING. Received the conference report on H. R. 9593, to simplify accounting methods and facilitate the payment of obligations (H. Rept. 2726). p. 11786
The Government Operations Committee reported with amendment H. R. 11526, to improve governmental budgeting and accounting methods and procedures (H. Rept. 2734). p. 11795
8. FARM CREDIT. Agreed to the Senate amendments to H. R. 10285, to merge production credit corporations in Federal intermediate credit banks, to provide for retirement of Government capital in Federal intermediate credit banks, and to provide for supervision of production credit associations. This bill is now ready for the President. p. 11787
9. MARKETING. The Agriculture Committee reported without amendment H. R. 8384, to extend the provisions of the Agricultural Marketing Agreement Act of 1937, to cranberries for canning or freezing processing (H. Rept. 2721). p. 11795
10. WILDLIFE. The Merchant Marine and Fisheries Committee reported with amendment H. R. 8250, to require conformance with State and Territorial fish and game laws and licensing requirements on Federal lands not subject to such laws (H. Rept. 2728). p. 11795
11. MILITARY CONSTRUCTION; SURPLUS COMMODITIES. Received the President's veto message on H. R. 9893, to authorize certain construction at military installations. The bill authorizes the Secretary of Defense to use for family housing in foreign countries, foreign currencies not to exceed \$250 million acquired pursuant to the provisions of the Agricultural Trade Development and Assistance Act of 1954, or through other commodity transactions of the CCC (H. Doc. 450). p. 11788
12. RECORDS. Passed over, at the request of Rep. Cunningham, S. 2364, to further clarify GSA's jurisdiction over records management. p. 11716
13. TRADE FAIRS. Passed as reported H. J. Res. 604, to authorize the President to invite the various States and foreign countries to participate in the U. S.

tions authorized to be credited to an appropriation but not received until after the transfer of the obligated appropriation balance as required by subsection (a) (1) of this Act, shall, unless otherwise authorized by law, be credited to the account into which the obligated balance has been transferred, except that any collection made by the General Accounting Office for other Government agencies may be deposited into the Treasury as miscellaneous receipts.

"(d) The withdrawals made pursuant to subsection (a) (2) of this section shall be accounted for and reported as of the fiscal year in which the appropriations concerned expire for obligation. The withdrawals described in subsection (b) (2) of this section shall be accounted for and reported as of the fiscal year in which this Act is approved.

"Sec. 2. Each appropriation account established pursuant to this Act shall be accounted for as one fund and shall be available without fiscal year limitation for payment of obligations chargeable against any of the appropriations from which such account was derived. Subject to regulations to be prescribed by the Comptroller General of the United States, payment of such obligations may be made without prior action by the General Accounting Office, but nothing contained in this Act shall be construed to relieve the Comptroller General of the United States of his duty to render decisions upon requests made pursuant to law or to abridge the existing authority of the General Accounting Office to settle and adjust claims, demands, and accounts.

"Sec. 3. (a) Appropriation accounts established pursuant to this Act shall be reviewed periodically, but at least once each fiscal year, by each agency concerned. If the undisbursed balance in any account exceeds the obligated balance pertaining thereto, the amount of the excess shall be withdrawn in the manner provided by section 1 (a) (2) of this Act; but if the obligated balance exceeds the undisbursed balance, the amount of the excess, not to exceed the remaining unobligated balances of the appropriations available for the same general purposes, may be restored to such account. A review shall be made as of the close of each fiscal year and the restorations or withdrawals required or authorized by this section accomplished not later than September 30 of the following fiscal year, but the transactions shall be accounted for and reported as of the close of the fiscal year to which such review pertains. A review made as of any other date for which restorations or withdrawals are accomplished after September 30 in any fiscal year shall be accounted for and reported as transactions of the fiscal year in which accomplished: *Provided*, That prior to any restoration under this subsection the head of the agency concerned shall make such report with respect thereto as the Director of the Bureau of the Budget may require.

"(b) In connection with his audit responsibilities, the Comptroller General of the United States shall report to the head of the agency concerned, to the Secretary of the Treasury, and to the Director of the Bureau of the Budget, respecting operations under this Act, including an appraisal of the unliquidated obligations under the appropriation accounts established by this Act. Within thirty days after receipt of such report, the agency concerned shall accomplish any actions required by subsection (a) of this section which such report shows to be necessary.

"Sec. 4. During the fiscal year in which this Act becomes effective, and under rules and regulations to be prescribed by the Comptroller General of the United States, the obligated balance of the appropriation account for payment of certified claims established pursuant to section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b),

shall be transferred to the related appropriation accounts established pursuant to this Act and the unobligated balance shall be withdrawn.

"Sec. 5. The obligated balances of appropriations made available for obligation for definite periods of time under discontinued appropriation heads may, upon the expiration of the second full fiscal year following the fiscal year or years for which such appropriations are available for obligation, be merged in the appropriation accounts provided for by section 1 hereof, or in one or more other accounts to be established pursuant to this Act for discontinued appropriations of the agency or subdivision thereof currently responsible for the liquidation of the obligations.

"Sec. 6. The unobligated balances of appropriations which are not limited to a definite period of time shall be withdrawn in the manner provided in section 1 (a) (2) of this Act whenever the head of the agency concerned shall determine that the purposes for which the appropriation was made has been fulfilled; or in any event, whenever disbursements have not been made against the appropriation for two full consecutive fiscal years: *Provided*, That amounts of appropriations not limited to a definite period of time which are withdrawn pursuant to this section or were heretofore withdrawn from the appropriation account by administrative action may be restored to the applicable appropriation account for the payment of obligations and for the settlement of accounts.

"Sec. 7. The following provisions of law are hereby repealed:

"(a) The proviso under the heading 'PAYMENT OF CERTIFIED CLAIMS' in the Act of April 25, 1945 (59 Stat. 90; 31 U. S. C. 690);

"(b) Section 2 of the Act of July 6, 1949 (63 Stat. 407; 31 U. S. C. 712b), but the repeal of this section shall not be effective until June 30, 1957;

"(c) The paragraph under the heading 'PAYMENT OF CERTIFIED CLAIMS' in the Act of June 30, 1949 (63 Stat. 358; 31 U. S. C. 712c);

"(d) Section 5 of the Act of March 3, 1875 (18 Stat. 418; 31 U. S. C. 713a); and

"(e) Section 3691 of the Revised Statutes, as amended (31 U. S. C. 715).

"(f) Any provisions (except those contained in appropriation Acts for the fiscal years 1956 and 1957) permitting an appropriation which is limited for obligation to a definite period of time to remain available for expenditure for more than the two succeeding full fiscal years, but this subsection shall not be effective until June 30, 1957.

"Sec. 8. The provisions of this Act shall not apply to the appropriations for the District of Columbia or appropriations to be disbursed by the Secretary of the Senate or the Clerk of the House of Representatives.

"Sec. 9. The inclusion in appropriation Acts of provisions excepting any appropriation or appropriations from the operation of the provisions of this Act and fixing the period for which such appropriation or appropriations shall remain available for expenditure is hereby authorized."

And the Senate agree to the same.

WILLIAM L. DAWSON,
ROBERT E. JONES,
JOE M. KILGORE,
CLARENCE J. BROWN,
CHARLES R. JONAS,

Managers on the Part of the House.

JOHN F. KENNEDY,
THOMAS A. WOFFORD
NORRIS COTTON,

Managers on the Part of the Senate.

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H. R. 9593) to simplify

accounting, facilitate the payment of obligations, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The conference substitute is the same as the bill as it passed the House, except in two minor respects. The House report contained a provision that the head of the agency shall make a report with respect to restorations as the Director of the Budget may require. The corresponding provision of the Senate amendment required that such report be made to the chairmen of the Committees on Appropriations of the Senate and the House of Representatives and to the Comptroller General of the United States and to the Director of the Bureau of the Budget. The conference substitute provides that such report be submitted to the Director of the Budget, the Comptroller General, the Speaker of the House of Representatives, and the President of the Senate.

The House bill postponed the transfer of the obligated balances during the fiscal year following the fiscal year in which this act becomes effective. The conference substitute provides that such transfer shall be made during the fiscal year in which the act becomes effective.

WILLIAM L. DAWSON,
ROBERT E. JONES,
JOE M. KILGORE,
CLARENCE J. BROWN,
CHARLES R. JONAS,

Managers on the Part of the House.

FEDERAL INTERMEDIATE CREDIT BANKS

Mr. POAGE. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H. R. 10285) to merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes, with Senate amendments thereto, and concur in the Senate amendments.

The Clerk read the title of the bill.

The Clerk read the Senate amendments, as follows:

Page 4, line 21, strike out all after "States." over to and including "bank." in line 3 on page 5 and insert "Stock of each Federal intermediate credit bank held by the Secretary of the Treasury shall be transferred to the Governor who shall exchange such stock for an equal amount of class A stock of such bank. The Governor is authorized thereupon to reallocate the investment of the United States in such banks in such manner as he determines necessary to meet the needs of the respective banks. Any transfers of capital funds required as a result of such reallocation shall be made in four equal installments, the first of which shall be made on January 1, 1957, and one of which shall be made on the first day of each of the next succeeding three calendar years. Upon each such transfer of capital funds the Governor shall require an appropriate adjustment in the class A stock of each such bank."

Page 5, line 22, after "to" insert "\$30,000,000 plus."

Page 17, line 17, strike out "\$100,000,000" and insert "\$70,000,000."

Page 24, line 3, strike out "Act" and insert "subsection."

Page 25, line 2, strike out "next following its enactment" and insert "1957, except subsections (a) and (b) of section 201, which shall become effective January 1, 1959."

The SPEAKER. Is there objection to the request of the gentleman from Texas?

Mr. KEATING. Mr. Speaker, reserving the right to object, may I inquire of the gentleman whether this has been cleared with the ranking minority member of the committee?

Mr. POAGE. It has been cleared with the ranking minority member and with the minority leader.

Mr. KEATING. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

The Senate amendments were concurred in.

A motion to reconsider was laid on the table.

APPOINTMENT OF DOCTORS OF OSTEOPATHY

Mr. SHORT. Mr. Speaker, I call up the conference report on the bill (H. R. 483) to amend the Army-Navy-Public Health Service Medical Officer Procurement Act of 1947, as amended, so as to provide for appointment of doctors of osteopathy in the Medical Corps of the Army and Navy, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Missouri?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of July 12, 1956.)

Mr. SHORT. Mr. Speaker, I move the previous question on the conference report.

The previous question was ordered.

The conference report was agreed to.

A motion to reconsider was laid on the table.

SPECIAL ORDERS POSTPONED

Mr. WILSON of California. Mr. Speaker, I ask unanimous consent that the special orders granted the gentleman from Arizona [Mr. RHODES] and myself, for tomorrow, be postponed until Thursday.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

CERTAIN CONSTRUCTION AT MILITARY INSTALLATIONS — VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 450)

The SPEAKER laid before the House the following veto message from the President of the United States:

To the House of Representatives:

I return herewith, without my approval, H. R. 9893, "to authorize certain construction at military installations, and for other purposes."

The bill authorizes the Secretaries of the Army, Navy, and Air Force to establish or develop military installations and facilities by acquiring, constructing, converting, rehabilitating, or installing permanent or temporary public works and family housing necessary for the operation of the armed services.

While I recognize the manifest importance of this measure to national defense, I cannot approve it so long as it contains certain provisions found in sections 301 and 419.

Section 301 provides that none of the authorization contained in that section relating to the Talos missile "shall be effective until the Secretary of Defense shall have come into agreement with the Armed Services Committees of the Senate and of the House of Representatives with respect to its utilization." If the committees should fail or decline to agree to the plans prepared by the Secretary of Defense, the practical effect of this provision would be to lodge in the committees the authority to nullify congressional authorization. The provision would also compel the Secretary of Defense, an executive official, to share with two committees of the Congress the responsibility for the carrying out of the Talos missile authorization. This procedure would destroy the clear lines of responsibility which the Constitution provides.

Section 419 provides that:

Notwithstanding any other provisions of this act or any other law, no contract shall be entered into by the United States for the construction or acquisition of family housing units by or for the use of the Department of Defense unless the Department of Defense, in each instance, has come into agreement with the Armed Services Committee of the Senate and House of Representatives.

While the Congress may enact legislation governing the making of Government contracts, it may not constitutionally delegate to its Members or committees the power to make such contracts, either directly or by giving them the authority to approve or disapprove a contract which an executive officer proposes to make.

Two years ago I returned, without my approval, a bill, H. R. 7512, 83d Congress, containing similar provisions. At that time I stated that such provisions violate the fundamental constitutional principle of separation of powers prescribed in articles I and II of the Constitution, which place the legislative power in the Congress and the executive power in the executive branch.

Once again, I must object to such a serious departure from the separation of powers as provided by the Constitution. Any such departure from constitutional procedures must be avoided. I am persuaded that the true purpose of the Congress in the enactment of both of these provisions was to exercise a close and full legislative oversight of important programs of the Department of Defense. This purpose can be properly attained by requiring timely reports from the Executive. Such reports would provide the Congress with the basis for any further legislative action it may find to be necessary.

Accordingly, I am returning H. R. 9893, with my urgent recommendation that it be reenacted without the objectionable provisions.

DWIGHT D. EISENHOWER.

THE WHITE HOUSE, July 16, 1956.

The SPEAKER. The objections of the President will be spread at large upon the Journal.

Mr. KILDAY. Mr. Speaker, I move that the bill and message be referred to the Committee on Armed Services and ordered to be printed.

The motion was agreed to.

THE LATE THOMAS R. UNDERWOOD

(Mr. WATTS asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include an article and an editorial.)

Mr. WATTS. Mr. Speaker, it is with profound sorrow that I have to announce the death, on June 29 last, of Hon. Thomas Rust Underwood, a former member of this House and a former Member of the Senate from Kentucky.

Death was attributable to a coronary occlusion which he had suffered several days previous. He was stricken while returning from participating in the work of the State central committee of the Democratic Party, the governing body of the party in Kentucky. In this work, he was doing that which he loved.

Thomas Rust Underwood was born in Hopkinsville, Ky., on March 3, 1898, the son of Thomas E. and Frances Rust Underwood. He attended the public schools of Hopkinsville and the University of Kentucky.

Tom Underwood truly was born to his chosen fields of endeavors—politics and journalism, as his mother was a former president of the Women's Democratic Club of Kentucky, and his father a former editor of the Hopkinsville New Era newspaper.

Prior to the completion of his formal education at the University of Kentucky, he became affiliated with the newspaper he was to serve for the rest of his life. In 1917, he became a reporter for the Lexington Herald and it was not long before his unusual abilities and talents brought him recognition. His political prognostications were uncanny in their accuracy; his observations poignant in their effectiveness, and his persuasiveness weighed heavily in molding public opinion.

His formal baptism into Kentucky politics was in the successful campaign of the Honorable William J. Fields for the Governorship of Kentucky in 1923. In this campaign, Tom Underwood served as State publicity chairman for the Democratic ticket.

Subsequently, throughout the years, he fought the battles of the Democratic Party on all levels—local, State, and National. Because of his fine qualities of leadership, his levelheadedness and his practicalness, he had a most extraordinary knack of bringing folks together. He was of inestimable value in compromising differences and insuring a unison of effort by the party at the polls.

Public Law 809 - 84th Congress
Chapter 741 - 2d Session
H. R. 10285

AN ACT

All 70 Stat. 659.

To merge production credit corporations in Federal intermediate credit banks; to provide for retirement of Government capital in Federal intermediate credit banks; to provide for supervision of production credit associations; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Credit Act of 1956". Farm Credit
Act of 1956.

DECLARATION OF POLICY

SEC. 2. It is declared to be the policy of the Congress to continue to provide agriculture with a sound, dependable, and effective source of credit; to promote the efficiency of the farm credit system by merging production credit corporations in Federal intermediate credit banks and to facilitate increased farmer participation in the management, control, and ownership of the merged banks and retirement of Government capital therein; to encourage and promote the continued growth and development of the production credit associations as self-supporting cooperative lending institutions operating on a sound credit basis with maximum local authority to determine credit needs and loan policies consistent with the maintenance of a national production credit system; and to continue to provide other financing institutions making loans to farmers and ranchers with the right to borrow from and rediscount with such merged banks on a basis comparable with the production credit associations regardless of the ownership of such banks. The provisions of this Act shall be construed in keeping with this declaration of policy.

TITLE I—PRODUCTION CREDIT SYSTEM

SEC. 101. MERGER OF PRODUCTION CREDIT CORPORATIONS IN FEDERAL INTERMEDIATE CREDIT BANKS—(a) TRANSFER OF ASSETS.—The production credit corporation in each farm credit district is hereby merged in the Federal intermediate credit bank of the district and all assets, funds, contracts, property, and records belonging to such corporation, except stock in production credit associations, are hereby transferred to and vested in such bank. All obligations and liabilities of the production credit corporation shall be assumed by the Federal intermediate credit bank of the district. Stock held by each production credit corporation in production credit associations is transferred to the Governor of the Farm Credit Administration and the Governor shall cancel an equal par amount of stock of the corporation.

(b) SERVICES TO AND SUPERVISION OF PRODUCTION CREDIT ASSOCIATIONS.—In order to carry out the declared policy of this Act with respect to the production credit associations, the Farm Credit Administration shall, by appropriate provisions in the charter and bylaws, or otherwise, provide for such organization and assignment of functions within the Federal intermediate credit banks as will assure proper supervision of and assistance to the production credit associations in a manner which will enable them to make sound credit available to farmers and ranchers. The income derived from the surplus transferred from the production credit corporation to the Federal intermediate credit bank of the district shall be used to pay expenses of the bank in providing such supervision and assistance, and expenses in excess of such income may be paid out of other resources of the bank.

(c) OFFICERS AND EMPLOYEES.—Notwithstanding any other provision of law, the employment of the officers and employees of each Federal intermediate credit bank and each production credit corporation is terminated on the effective date of this Act and the board of directors of the Federal intermediate credit bank shall, not later than sixty days prior to the effective date of this Act, take all necessary action to reemploy as of such effective date such of the officers and employees so terminated in such capacities as the board determines they are qualified and needed to carry out the functions, powers, and duties of the Federal intermediate credit bank. Such reemployment shall be subject to the approval of the Farm Credit Administration.

42 Stat. 1457.
12 USC 1061.

SEC. 102. Section 205 of the Federal Farm Loan Act, as amended, is amended to read as follows:

“CAPITAL STOCK

“SEC. 205. (a) CLASSES OF STOCK; OWNERSHIP; DIVIDENDS; AND RETIREMENT OF STOCK.—Each Federal intermediate credit bank is authorized to issue class A and class B stock as follows:

“(1) Class A stock shall have a par value of \$100 per share and shall be issued to and held by the Governor of the Farm Credit Administration on behalf of the United States. Stock of each Federal intermediate credit bank held by the Secretary of the Treasury shall be transferred to the Governor who shall exchange such stock for an equal amount of class A stock of such bank. The Governor is authorized thereupon to reallocate the investment of the United States in such banks in such manner as he determines necessary to meet the needs of the respective banks. Any transfers of capital funds required as a result of such reallocation shall be made in four equal installments, the first of which shall be made on January 1, 1957, and one of which shall be made on the first day of each of the next succeeding three calendar years. Upon each such transfer of capital funds the Governor shall require an appropriate adjustment in the class A stock of each such bank. Stock of each production credit corporation held by the Governor (less the amount canceled pursuant to section 101 of the Farm Credit Act of 1956) shall be exchanged for an equal par amount of class A stock of the Federal intermediate credit bank in which such corporation is merged pursuant to section 101 of such Act. No dividends shall be paid on class A stock. Annually at the end of its fiscal year each such bank shall determine the amount of its class A stock which shall be retired. Whenever the total of the capital stock, participation certificates, surplus, and reserves of the bank is more than one-sixth of the highest month-end balance of debentures and other obligations issued by or for the bank, outstanding during the immediately preceding five years, the minimum amount of class A stock to be retired shall be the total amount of class B stock and participation certificates issued for that year. All class A stock shall be retired at par. The proceeds of such class A stock retirements of each bank shall be paid into the Treasury as miscellaneous receipts until there is so paid a sum equal to \$30,000,000 plus the amount of class A stock of the bank issued in exchange for stock of the production credit corporation. The proceeds of any further such stock retirements shall be paid into the revolving fund established by section 5 (e) of the Farm Credit Act of 1933, as amended. The Governor of the Farm Credit Administration is authorized to purchase from time to time class A stock in any bank in such amount as he determines is needed to meet the credit needs of the bank and such revolving fund shall continue to be available for such purchases as provided in said section 5 (e). The Governor may at any time require the bank to retire such

48 Stat. 348.
12 USC 1131i.

class A stock if, in his judgment, the bank has resources available therefor, and the proceeds of such retirements shall be returned to such revolving fund.

"(2) Class B stock shall have a par value of \$5 per share and may be issued only to production credit associations in series and amounts approved by the Farm Credit Administration. Such stock shall be issued only at par and may be transferred to another production credit association with the approval of the issuing bank. Whenever a bank has no class A stock outstanding it may pay like dividends on class B stock and participation certificates in an amount not to exceed 5 per centum in any year if declared by the board of directors. Dividends on class B stock and participation certificates shall not be cumulative. Within sixty days after the effective date of the Farm Credit Act of 1956, the production credit associations shall subscribe to class B stock in the banks in an aggregate amount equal to 15 per centum of the total amount of class A stock in all banks. Such required amount of subscriptions shall be allotted among the several districts in the proportion that the average amount of the bank's loans to and discounts for the production credit associations of the district, outstanding during the immediately preceding five fiscal years, is of the average of such loans and discounts of all banks outstanding during such five-year period. The amount so allotted to each district shall be further allotted to each production credit association on the basis of the proportion that its average indebtedness (loans and discounts) to the bank during the immediately preceding five fiscal years is of the average of such indebtedness of all production credit associations to the bank during such five-year period. Each production credit association shall subscribe to class B stock in the bank of the district in the amount so allotted to it. One-third of the purchase price of such stock subscription shall be paid at the time of such subscription, one-third shall be paid within one year after the effective date of said Act, and the balance shall be paid within two years after such effective date. Such class B stock shall be issued as payments therefor are made. Any production credit association chartered after the effective date of the Farm Credit Act of 1956 shall thereupon purchase class B stock in the bank in the amount of \$5,000, and such amount shall be adjusted at the end of five years thereafter to an amount determined by applying to its average indebtedness to the bank during such five-year period the same percentage as the percentage which the initial subscriptions of other production credit associations was of their indebtedness, as provided in this subsection: *Provided*, That this provision shall not apply to any association owning stock in the bank in such required amount as a result of merger, consolidation, or reorganization of one or more associations. After all class A stock has been retired, the bank may retire class B stock at par and participation certificates at a face amount under policies established by the Farm Credit Administration. Class B stock and participation certificates shall be retired without preference and in such manner that the oldest outstanding stock or certificates at any given time will be retired first. In case of liquidation or dissolution of any production credit association or other financing institution, the stock or participation certificates of the bank owned by such association or institution may be retired by the bank at the fair book value thereof, not exceeding par or face amount, as the case may be.

"(b) LIEN ON STOCK AND PARTICIPATION CERTIFICATES.—Each Federal intermediate credit bank shall have a first lien on all stock in the bank owned by each production credit association and on all participation certificates owned by other financing institutions as additional collateral for any indebtedness of the holders thereof to the bank:

Provided, That the bank shall make no loan or advance on the security of its own stock or participation certificates. In any case where the debt of a production credit association or other financing institution is in default, the bank may retire and cancel all or a part of the stock of the bank held by the association or of the participation certificates held by the other financing institution at the fair book value thereof, not exceeding par or face amount, as the case may be, in total or partial liquidation of the debt."

42 Stat. 1457.
12 USC 1062, 1072. SEC. 103. Section 206 of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"APPLICATION OF EARNINGS

"SEC. 206. (a) ANNUAL APPLICATION.—At the end of its fiscal year, each Federal intermediate credit bank shall determine the amount of its net earnings after paying or providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves) and shall apply such net earnings as follows: (1) To the restoration of the amount of the impairment, if any, of capital stock and participation certificates, as determined by its board of directors; (2) to the restoration of the amount of the impairment, if any, of the surplus account established by this subsection, as determined by its board of directors; (3) 25 per centum of any remaining earnings shall be used to create and maintain a reserve account equal to 25 per centum of the outstanding capital stock and participation certificates of the bank; (4) if said bank shall have outstanding capital stock held by the United States during the whole or any part of its fiscal year, it shall next pay to the United States as a franchise tax, a sum equal to 25 per centum of its earnings then remaining, not exceeding, however, a rate of return on such Government capital calculated at a rate equal to the computed average annual rate of interest on all public issues of public debt obligations of the United States issued during the fiscal year of the United States Treasury ending next before such tax is due, as certified to the Farm Credit Administration by the Secretary of the Treasury; (5) dividends on class B stock and participation certificates may be declared as provided in section 205 (a) of this Act; and (6) any remaining net earnings shall be distributed as patronage refunds as provided in subsection (b) of this section. Notwithstanding the provisions of item (3) of this subsection, if at the end of any fiscal year the sum of the surplus and the reserve account of any bank is less than its outstanding capital stock and participation certificates, the bank shall continue to apply such 25 per centum of its net earnings to the reserve account until the sum of the surplus and the reserve account is equal to its outstanding capital stock and participation certificates. Each bank shall, on the effective date of the Farm Credit Act of 1956, establish a surplus account consisting of its earned surplus account, its reserve for contingencies, and the surplus of the production credit corporation transferred to the bank. No part of such surplus of any bank shall be distributed as patronage refunds or as dividends. In the event of a net loss in any fiscal year after providing for all operating expenses (including reasonable valuation reserves and losses in excess of any such applicable reserves), such loss shall be absorbed by: first, charges to the reserve account; second, charges to surplus other than that transferred from the production credit corporation of the district; third, charges to surplus transferred from the production credit corporation of the district; fourth, the impairment of class B stock and participation certificates; and fifth, the impairment of class A stock.

"(b) PATRONAGE REFUNDS.—Whenever at the end of its fiscal year a Federal intermediate credit bank has class A stock outstanding, patronage refunds declared for that year shall be paid in class B stock to production credit associations and in participation certificates to other financing institutions borrowing from or rediscounting with the bank during the fiscal year for which such refunds are declared. The recipients of such patronage refunds shall not be subject to Federal income taxes thereon. Whenever at the end of its fiscal year a Federal intermediate credit bank has no class A stock outstanding, patronage refunds declared for that year may be paid in such class B stock and participation certificates or in cash as determined by the bank. All patronage refunds shall be paid in the proportion that the amount of interest earned by the bank on its loans to and discounts for each production credit association or other financing institution bears to the total interest earned by the bank on all such loans and discounts outstanding during the fiscal year. Each participation certificate issued in payment of patronage refunds shall be in multiples of \$5 and shall state on its face the rights, privileges, and conditions applicable thereto. Patronage refunds shall not be paid to any other Federal intermediate credit bank, or to any Federal land bank or bank for cooperatives.

"(c) DISTRIBUTION OF ASSETS ON LIQUIDATION OR DISSOLUTION.—In the case of liquidation or dissolution of any Federal intermediate credit bank, after payment or retirement, as the case may be, first, of all liabilities; second, of all class A stock at par; third, of all class B stock at par and all participation certificates at face amount; any remaining assets of the bank shall be distributed as provided in this subsection. Any of the surplus established pursuant to subsection (a) of this section (excluding that transferred from the production credit corporation of the district) which the Farm Credit Administration determines was contributed by financing institutions, other than the production credit associations, rediscounting with or borrowing from the bank on the effective date of the Farm Credit Act of 1956 shall be paid to such institutions, or their successors in interest as determined by the Farm Credit Administration, and the remaining portion of such surplus (including that transferred from the production credit corporation of the district) shall be paid to the holders of class A and class B stock pro rata. The contribution of each such financing institution under the preceding sentence shall be computed on the basis of the ratio of its patronage to the total patronage of the bank from the date of organization of the bank to the effective date of the Farm Credit Act of 1956. Any assets of the bank then remaining shall be distributed to the holders of class B stock and the holders of participation certificates pro rata."

SEC. 104. (a) Section 201 (b) of the Federal Farm Loan Act, as amended, is hereby amended by adding at the end thereof the following sentence: "The directors shall have power, subject to the approval of the Farm Credit Administration, to adopt such bylaws as may be necessary for the conduct of the business of the banks."

(b) Section 202 (a) of the Federal Farm Loan Act, as amended, is hereby amended to read as follows:

"SEC. 202. (a) The Federal intermediate credit banks, when chartered and established, shall have power, subject solely to the restrictions, limitations, and conditions contained in this Act or as may be prescribed by the Farm Credit Administration not inconsistent with the provisions of this Act—

"(1) to discount for, or purchase from, any production credit association organized under the Farm Credit Act of 1933, as amended, with its endorsement, any note, draft, or other such

Fed. intermediate
credit banks.
42 Stat. 1454.
12 USC 1021.
Bylaws.

12 USC 1031.

Powers.

obligation presented by such association; and to make loans and advances to any such association secured by such collateral as may be approved by the Governor of the Farm Credit Administration;

"(2) to discount for, or purchase from, any national bank, State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union, and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement, any note, draft, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, including the breeding, raising, fattening, or marketing of livestock; and to make loans and advances to any such financing institution secured by such collateral as may be approved by the Governor of the Farm Credit Administration: *Provided*, That no such loan or advance shall be made upon the security of collateral other than notes or other such obligations of farmers and ranchers eligible for discount or purchase under the provisions of this section, unless such loan or advance is made to enable the financing institution to make or carry loans for any agricultural purpose; and

"(3) to make loans to and discount paper for any other Federal intermediate credit bank, any Federal land bank, or any bank for cooperatives organized under the Farm Credit Act of 1933, as amended, all upon terms and at rates of interest or discount approved by the Farm Credit Administration."

48 Stat. 257.
12 USC 1131 note.

46 Stat. 816.
12 USC 1033.
42 Stat. 1456.
12 USC 1051.

Interest or
discount rates.

(c) Section 202 (c) of the Federal Farm Loan Act, as amended, is amended by changing the word "three" to the word "five".

(d) Section 204 (a) of the Federal Farm Loan Act, as amended, is amended to read as follows:

"SEC. 204. (a) Loans and discounts by any Federal intermediate credit bank shall bear such rates of interest or discount as the board of directors of the bank shall from time to time determine with the approval of the Farm Credit Administration, but the rates charged financing institutions other than production credit associations shall be the same as those charged production credit associations."

50 Stat. 708.
12 USC 781.

(e) Section 13 of the Federal Farm Loan Act, as amended, is hereby amended by inserting in paragraph "Seventeenth", after the words "Federal land banks", a comma and the words "to Federal intermediate credit banks, or to banks for cooperatives organized under the Farm Credit Act of 1933, as amended,".

12 USC 1131
note.
49 Stat. 315.
12 USC 1041.
12 USC 1044,
1045.

(f) Section 203 of the Federal Farm Loan Act, as amended, amended (i) by inserting in subsection (a) thereof, after the words "outstanding consolidated debentures" the words "or other similar obligations"; and (ii) by inserting in subsections (d) and (e) thereof, after the word "debentures" wherever used therein, except in the last sentence of subsection (d), the words "or other similar obligations".

48 Stat. 257.
12 USC 1131,
1134.
"Banks for
cooperatives."

SEC. 105. (a) Section 2 of the Farm Credit Act of 1933, as amended, is amended to read as follows:

"SEC. 2. The Governor of the Farm Credit Administration, hereinafter in this Act referred to as the 'Governor', is authorized and directed to organize and charter twelve banks to be known as 'banks for cooperatives'. One such bank shall be established in each city in which there is located a Federal land bank. The members of the several farm credit boards of the farm credit districts provided for in section 5 of the Farm Credit Act of 1937, as amended, shall be ex officio the directors of the respective banks for cooperatives. Such directors shall have power, subject to the approval of the Governor, to employ and fix the compensation of such officers and employees of

50 Stat. 704.
12 USC 640a.

such banks as may be necessary to carry out the powers and duties conferred upon such banks under this Act."

(b) Section 3 of the Farm Credit Act of 1933 is amended by striking from the first sentence the words "the production credit corporations and" and by striking from the second sentence the words "corporations and". 48 Stat. 257.
12 USC 1131a,
1134a.

(c) Section 4 of the Farm Credit Act of 1933 is hereby repealed. 12 USC 1131b.

(d) Section 5 of the Farm Credit Act of 1933, as amended, is amended (1) by changing "\$120,000,000" in subsection (a) thereof to "\$60,000,000"; (2) by striking from subsection (b) thereof the words "the production credit corporations and"; (3) by changing "\$40,000,000" in subsection (e) thereof to "\$70,000,000"; and (4) by striking from subsection (e) thereof the words "and/or paid-in surplus". Revolving fund.
48 Stat. 258,
348.
12 USC 1131i.

(e) Section 6 of the Farm Credit Act of 1933, as amended, is amended to read as follows: 48 Stat. 259.
12 USC 1131o.

"INVESTMENT BY GOVERNOR IN STOCK OF PRODUCTION CREDIT ASSOCIATIONS

"SEC. 6. The Governor may purchase class A stock of any production credit association in such amounts as he determines are required to meet the credit needs of farmers in the area served by such association. Payments for such stock purchased by the Governor shall be made out of the revolving fund authorized by section 5 (a) of this Act. Supra. The Governor may at any time require any production credit association to retire and cancel any class A stock held by him in such association if, in his judgment, the association has resources available therefor, and the proceeds of such stock retirements shall be paid into such revolving fund."

(f) Section 20 of the Farm Credit Act of 1933 is amended by changing the fourth sentence to read as follows: "Such articles shall be signed by the individuals uniting to form the association and a copy thereof shall be furnished to the Governor." 48 Stat. 260.
12 USC 1131d.

(g) Section 21 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "production credit corporations" and substituting in lieu thereof the words "the Governor"; and (2) by deleting the last sentence thereof. 48 Stat. 260.
12 USC 1131e.

(h) Section 22 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof "Federal intermediate credit bank". 48 Stat. 261.
12 USC 1131f.

(i) Section 23 of the Farm Credit Act of 1933, as amended, is amended (1) by changing the first sentence to read as follows: "Each production credit association shall, under such rules and regulations as may be prescribed by the farm credit board of the district with the approval of the Farm Credit Administration, invest its funds and make loans to farmers for general agricultural purposes and other requirements of the borrowers."; (2) by deleting the second sentence; and (3) by striking from the third sentence the word "corporation" and inserting in lieu thereof the words "Federal intermediate credit bank". 48 Stat. 261.
12 USC 1131g.

(j) Section 34 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks". 49 Stat. 317.
12 USC 1134j.

(k) Section 41 of the Farm Credit Act of 1933, as amended, is hereby amended by adding before the semicolon at the end of "(b)" the words "or to Federal land banks or Federal intermediate credit banks". 49 Stat. 317.
12 USC 1134c.

48 Stat. 266.
12 USC 1138.

(1) Section 60 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the second sentence the words "association, or corporation" and substituting in lieu thereof the words "or association"; and (3) by striking from the third sentence the words "production credit corporation or", "or corporation", and "corporation or", wherever they appear therein.

48 Stat. 267.
12 USC 1138a.

(m) Section 61 of the Farm Credit Act of 1933 is amended (1) by striking from the first sentence the words "production credit corporation,"; and (2) by striking from the second and third sentences the words "association, or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

48 Stat. 267.
12 USC 1138b.

(n) Section 62 of the Farm Credit Act of 1933, as amended, is amended by striking out the words "production credit corporations,".

48 Stat. 267.
12 USC 1138c.

(o) Section 63 of the Farm Credit Act of 1933, as amended, is amended (1) by striking from the first sentence the words "the production credit corporations,"; (2) by striking from the first and second sentences the words "associations, or corporations" and "associations, and corporations," and substituting in lieu thereof, the words "or associations" and "and associations," respectively; and (3) by changing the last sentence to read as follows: "The exemption provided herein shall not apply with respect to any production credit association or its property or income after the class A stock held in it by the Governor has been retired, or with respect to any bank for cooperatives or its property or income after the stock held in it by the United States has been retired."

48 Stat. 269.
12 USC 1138e.

(p) Section 65 of the Farm Credit Act of 1933, as amended, is amended (1) by striking out the words "production credit corporation,"; and (2) by striking out the words "association or corporation", wherever they appear therein, and substituting in lieu thereof the words "or association".

48 Stat. 1263.
12 USC 1138g-1.
67 Stat. 397.
12 USC 640d.

(q) Section 86a of the Farm Credit Act of 1933 is hereby repealed.

SEC. 106. (a) Section 5 of the Farm Credit Act of 1937, as amended, is amended (1) by striking from subsection (d) (2) (B) the words "production credit corporation of the district" and substituting in lieu thereof the words "Governor of the Farm Credit Administration"; and (2) by striking from subsection (h) the words "production credit corporation,".

50 Stat. 705.
12 USC 640h.

50 Stat. 706.
12 USC 640l.

(b) Section 6 of the Farm Credit Act of 1937 is amended (1) by striking from the first sentence of subsection (a) the words "production credit corporation,"; (2) by striking from the third sentence of subsection (a) the word "three"; (3) by striking from the first sentence of subsection (b) the words "the bank for cooperatives, and the production credit corporation" and substituting in lieu thereof the words "and the bank for cooperatives"; and (4) by striking from the last sentence of subsection (b) the words "production credit corporation,".

67 Stat. 394.
12 USC 636g.

SEC. 107. (a) Section 8 of the Farm Credit Act of 1953 is amended by striking out the words "production credit corporation", wherever they appear therein, and substituting in lieu thereof the words "Federal intermediate credit bank".

67 Stat. 399.
12 USC 1131e-1.

(b) Subsection (a) of section 16 of the Farm Credit Act of 1953 is amended to read as follows:

"(a) Any other provisions of law to the contrary notwithstanding, after the effective date of this Act any production credit association may, with the approval of the Farm Credit Administration, issue nonvoting preferred stock, to be known as class C stock, which may be purchased and held by the Governor of the Farm Credit Administration and by investors: *Provided*, That the issuance of such stock shall be authorized by vote of not less than two-thirds of the outstanding shares of class A stock of the association (other than shares held by the Governor of the Farm Credit Administration) by the holders thereof

70 Stat. 666.
70 Stat. 667.

in person or by proxy and by vote of not less than two-thirds of the outstanding shares of class B stock of the association by the holders thereof in person or by proxy; and for this purpose holders of class A stock (other than the Governor of the Farm Credit Administration) and holders of class B stock shall be entitled to one vote for each share of stock held by them. Payments for such stock purchased by the Governor shall be made out of the revolving fund created by section 5 (a) of the Farm Credit Act of 1933, as amended, and the proceeds from the retirement of any such stock shall be paid into such revolving fund."

SEC. 108. Section 601 of the Department of Agriculture Organic Act of 1944, as amended, is hereby amended (1) by striking from subsection (a) the words "production credit corporations," wherever they appear therein, and the word "corporations,"; (2) by striking from subsection (b) the words "the Federal intermediate credit banks, and the production credit corporations" and substituting in lieu thereof the words "and the Federal intermediate credit banks"; and (3) by striking from subsections (b) and (c) the words "and corporation", "and corporations", and "corporation," wherever they appear therein.

58 Stat. 740.
12 USC 832.

SEC. 109. Sections 658 and 1014 of title 18, United States Code, are hereby amended by striking from each such section the words "or in which a production credit corporation holds stock".

62 Stat. 729,
752.

TITLE II—MISCELLANEOUS PROVISIONS

SEC. 201. (a) The Government Corporation Control Act, as amended, is amended (1) by striking from section 101 the words "Federal Intermediate Credit Banks; Production Credit Corporations,"; (2) by inserting in section 201 immediately following "(3)" the words "Federal Intermediate Credit Banks, (4)"; (3) by changing "(4)" in section 201 to "(5)"; and (4) by striking from sections 302 and 303 the words "production credit corporations,".

59 Stat. 597,
600, 601.
31 USC 846, 856,
867, 868.

(b) After the effective date of this subsection, the Federal intermediate credit banks may utilize their funds for administrative expenses without regard to the limitations contained in any other Act of Congress governing the expenditure of appropriated funds.

(c) Paragraph Seventh of section 5136 of the Revised Statutes as amended, is amended (1) by inserting in next to the last sentence immediately before the words "Federal Home Loan Banks", the words "thirteen banks for cooperatives or any of them or the"; and (2) by changing the last sentence to read as follows: "The limitations and restrictions herein contained as to dealing in and underwriting investment securities shall not apply to obligations issued by the International Bank for Reconstruction and Development which are at the time eligible for purchase by a national bank for its own account: *Provided*, That no association shall hold obligations issued by said bank as a result of underwriting, dealing, or purchasing for its own account (and for this purpose obligations as to which it is under commitment shall be deemed to be held by it) in a total amount exceeding at any one time 10 per centum of its capital stock actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund."

12 USC 24.

SEC. 202. (a) This Act shall become effective on January 1, 1957, except subsections (a) and (b) of section 201, which shall become effective January 1, 1959.

Effective dates.

(b) For purposes of applying the amendment in section 103 of this Act, that part of the fiscal year 1957 preceding the effective date of this Act shall be deemed to be a separate fiscal year.

Separability.

SEC. 203. (a) If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

(b) The right to alter, amend, or repeal this Act is hereby expressly reserved.

Approved July 26, 1956.

